# FINANCE AND POLITICS

## AN HISTORICAL STUDY

1783–1885

BY

SIDNEY BUXTON

VOLUME II

GLENDALE COMMUNITY COLLEGE LIBRARY, CA
3 2324 0055053 W

*Reprints of Economic Classics*

# FINANCE AND POLITICS

## VOLUME II

DISCARD

# FINANCE AND POLITICS

## AN HISTORICAL STUDY

1789-1885

BY

SIDNEY BUXTON

[1888]

In Two Volumes

VOLUME II

REPRINTS OF ECONOMIC CLASSICS

AUGUSTUS M. KELLEY · PUBLISHERS

NEW YORK · 1966

35442
Burt

LIBRARY OF CONGRESS CATALOGUE CARD NUMBER

66-21367

PRINTED IN THE UNITED STATES OF AMERICA
*by* SENTRY PRESS, NEW YORK, N. Y. 10019

# FINANCE AND POLITICS;

## *AN HISTORICAL STUDY.*

## 1783–1885.

By SYDNEY BUXTON, M.P.

AUTHOR OF "A HANDBOOK TO POLITICAL QUESTIONS," ETC.

IN TWO VOLUMES.

VOL. II.

LONDON:
JOHN MURRAY, ALBEMARLE STREET.
1888.

[*All rights reserved.*]

# CONTENTS.


## CHAPTER XIX.

### REFORM.

1866—1867.

General Election of 1865, 1—Gladstone rejected by Oxford University, 1—His Liberal tendencies, 1—His opinion on the question of the Irish Church, 2—Death of Palmerston, 2—Sketch of his life and opinions, 3—His intrigues against his colleagues, a blot on his political character, 3—Stagnation of legislation during his time, 4—The Union Chargeability Act, 5—The revised Education Code, 1861, 5—In financial matters alone any activity, 5—The financial record of the Palmerston Government, 6—Minor financial measures, 6—The Submarine Cable, 7—The Underground Railway opened, 7—The Metropolitan Board of Works, 8—The old order changing, 8—Russell succeeds Palmerston, 8—Gladstone Leader of the House of Commons, 9—Introduction of a Reform Bill, 1866, 9—A "poor thing," 9—The opposition to it, 9—The Cave of Adullam, 9—Defeat of the Bill, 10—Resignation of the Government, 10—Lord Derby Prime Minister, 10—Reform meetings, 10—The Reform Bill of 1867, 11—A period of humiliation for the Government, 11—The Reform Act, 12—Resignation of Peel, Carnarvon and Cranbourne, 12—Gladstone and the leadership of the Liberal Party, 12—1866 a memorable year, 13—The Continent, 13—Fenianism, 13—Coercion Bills, 13—The cattle plague, 14—Financial crisis, 14—Third suspension of the Bank Act, 14—History of the Bank Charter Act, 14—Suspension of cash payments 1797, 14—Alterations in the Bank Charter in 1826 and 1834, 15—Peel's proposal of 1844 ; separation of the issue from the banking departments, 16—The three "suspensions" of the Act of 1844, 17—The panic of 1847, 18—Severity of the crisis of 1857, 18—The "Black Friday" of 1866, 19—Reason of the crisis of 1866, 19—A credit crisis, 20—Lowe's Bill of 1873, 21 . . . . . 1—21

## CHAPTER XX.

### DEBT REDUCTION.

1866—1867.

The test of financial policy in regard to reduction of the debt, 22—The reduction of the debt neglected between 1859 and 1865, 22—The debt charge between 1858 and 1865, 23—The "Dead Weight" annuity, 23—Necessity of further action being taken, 24—The Coal scare, 24—Refutation of the geometrical

progressionists, 25—Gladstone's inadequate proposal of 1866 for reducing the debt, 26—Disraeli's proposal of 1867, 27—The system of terminable annuities, 28—Historical account, 29—Life annuities, 29—Terminable annuities not easily placed, 30—Savings Bank Stock, 30—Method by which terminable annuities are created, 30—Objections to the system, 31—Terminable annuities the only available means for the regular reduction of the debt, 32—The melancholy history of other sinking funds, 32—Advantages derived from the system of terminable annuities, 33—Suspension of the terminable annuities in 1885, 33—Invasion of the system in 1887, 33 . . . . . 22—33

## CHAPTER XXI.

### THE CONSERVATIVES.

1866—1868.

Supplementary Estimates of 1866, 34—Disraeli on economy, 35—Disraeli's Budget of 1867, 36—His financial speeches, 36—Budget proposals of 1867, 37—The Abyssinian War, 37—Theodore's letter to the Queen left unanswered, 37—Imprisonment of Europeans, 38—Negociations, 38—The Expedition, 38—Its cost, 39—Proposals of the Government to meet it, 39—Gross under-estimate of the cost of the war, 40—Growing expenditure, 41—The deficiency of 1867, 41—Ward Hunt's Budget of 1868, 42—The deficit met by the addition of 2*d.* to the income tax, 43—The issue of Exchequer Bonds, 43—Collection of taxation within the year, 43—A large balance of debt left unredeemed, 44—The expenditure of 1868, 45—Constant changes in the Government tell against economy, 46—Expenditure on the naval and military services, 46—New departure in the dealings with the income tax, 47—Additions to, and reductions of, the income tax between 1866 and 1887, 48—The income tax becomes a mere makeweight in finance, 48—The purchase of the telegraph system 1868, 49—The cost, 50—The loss, 51—The mismanagement of the business, 52 . . . . . 34—52

## CHAPTER XXII.

### THE LIBERALS.

1869.

Disraeli succeeds Lord Derby as Prime Minister in 1868, 53—Divisions among the Liberals, 53—Dislike of Disraeli, 54—Disestablishment of the Irish Church, 54—Re-union of the Liberal party, 54—The Government defeated on the question of the Irish Church, 54—General election, 1869, gain of the Liberal Party, 55—Resignation of the Ministers, 56—Gladstone becomes Prime Minister, 56—Activity of the new Government, 56—Their reforms, 57—Opposition and disappointment, 57—Their promise to reduce expenditure, 58—Immediate reductions, 59—"Economy and efficiency"? 59—Re-organization of the War Office, 60—History of previous re-organizations, 60—Proposals of 1869, 61—Withdrawal of British troops from self-governing Colonies, 62—Advantages derived therefrom, 63—"Short service," 64—The Reserve, 64—Sidney Herbert's plan, 64—General Peel's scheme, 65—Cardwell's system, 65—Skeleton battalions, 66—Recruiting, 66—Localization, 66—Fusion of regular

and auxiliary forces, 67—Success of the reforms, 67—Gathorne Hardy's retirement scheme of 1877, 68—The abolition of Purchase, 68—The cost of all these changes, 69—Reforms at the Admiralty, 70—Graham's reforms of 1831, 70—Proposals of 1869, 71—Reduction of foreign squadrons, 72—Promotion and retirement, 72—Dockyard and administrative reforms, 72—"Business principles," 73—Opposition to the changes, 74—"Vested interests," 75—Mares nests, and disasters, 76—Reduction of expenditure on the Navy probably too great, 76—The reforms in the Army did not result in reduction of expenditure, 76 . . . . . 53—76

CHAPTER XXIII.

LOWE.—PROSPERITY.

1869—1870.

Lowe as Chancellor of the Exchequer, 77—The difficulties before him: a deficit, 78—Attempted economies of the late Government, 78—Postponement of payment, 79—Inelasticity of the revenue, 79—War expenditure to be met, 81—The financial reform introduced, 82—The collection of the income tax, 82—The assessed taxes, 83—Their history, 83—Changed into license duties, 84—The duty to be paid prospectively instead of retrospectively, 85—The duties simplified, 85—The land tax and house duty, 86—The effect of these reforms, 86—Their advantages, 88—Effect on Bank of England, 90—Lowe not the keeper of the money market, 90—The "windfall" used for reduction and repeal, 91—Was this wise? 92—Abolition of the registration duty on corn, 93—Simplification of the duties on locomotion, 94—Horse duty reduced, 94—The carriage tax, 94—Repeal of the duties on hackney carriages, stage carriages, and post horses, 95—Their history, 96—The hackney carriage duty, 96—Lowe's Budget speech a work of art, 97—Budget of 1870, 98—Satisfactory prospects, 98—The army and navy expenditure from 1858 to 1886, 99—Increasing prosperity, 100—Results of, for 1869, 101—The estimates for 1870, 101—The telegraph service, 102—Estimated surplus, 103—The gun tax, 103—Remission of various small duties, 104—Reform of the stamp duties, 105—History of these duties, 105—Former reforms, 106—Lowe's simplification and consolidation, 106—Satisfactory results, 107—Yield of stamp duties from 1870 to 1886, 107—Remission of 1*d.* of income tax, 107—Reduction of the sugar duty by one-half, 108—Summary of proposals, 108 . . . . 77—109

CHAPTER XXIV.

LOWE.—ADVERSITY.

1871.

Franco-German War, 1870, 110—War inevitable since Battle of Sadowa, 110—Rectification of frontier demanded of Prussia by France, 110—The Luxembourg question in 1867, 111—Conference of the Powers and incident closed, 111—The waning prestige of the Emperor of the French, 111—Increasing strength of the Opposition, 111—Re-organization of French army, 1867, 112—Mexico 112—Jealousy between France and Prussia, 112—Question of the Spanish succession, 1870, 113—Demand of France, 113—Declaration of war, 113—

Belief of Emperor that French army was ready for war, 113—His hope in the alliance of South Germany and of Austria, 113—The war, 114—Capitulation of Paris, 1871, 114—End of the Empire, 114—The Republic in France, 114—Apprehensions in England at beginning of war in regard to Belgium, 114—Publication of draft of secret treaty between Prussia and France, 114—Vote of two millions asked for, 115—Army increased, navy strengthened, 115—Negociation of temporary treaty for the protection of Belgium, 116—Prince Gortschakoff's despatch respecting the Black Sea, 116—Conference of Powers, 1871, 116 — Result, 117 — Effect of the Franco-German War on English finances, 117—Increased expenditnre in 1870, 117—Revenue greater than estimate, 118—English trade benefited by the war, 118—Great increase in estimates of expenditure for 1871, 118—Increased cost of education, 118—Great increase in army estimates, 119—Substitution of "Martini-Henry" for "Snider" rifle, 119—Cautious estimate of revenue for 1871, 119—Estimated deficiency £2,700,000, 120—Question of borrowing to meet a deficiency, 120—Idea scouted by Lowe, 121—Budget of 1871, 121—Income tax to be increased and to be levied by percentage, 122—Proposed tax on matches, 122—The succession duty on land to be increased; the probate duty on testate and intestate estates to be equalised; the scale of legacy duty on nearest of kin to be raised, 122—Objections to and advantages of a percentage income tax, 123—Some reform required in the "penny" system of income tax, 124—Match tax fiscally unsound, 124—Budget of 1871 too ambitious, 125—Personal unpopularity of Lowe, 126—Budget altered out of all recognition, 127—Ultimately a twopenny income tax imposed to meet deficiency, 127—Lowe unduly blamed, 128—Unpopularity of the Government, 128—Great expenditure, 129—Previous reductions forgotten, 129—Ballot Bill obstructed, 130—Army Bill suspended in House of Lords, 130—Abolition of Purchase by Royal warrant, 130—Failure of other bills, 130—Foreign policy of Government not successful, 131—"Indirect" claims in connection with Treaty of Washington, 131—Abrogation of Black Sea Treaty, 131—Army expenditure and navy mismanagement, 132—Reduction of army by 20,000 men in 1869, and men re-voted in 1870, 132—Abolition of Purchase, 133—Navy under a cloud, 133—Foundering of *Captain*, 134—Misfortunes to *Agincourt* and *Megæra*, 134—National desire that navy should be efficient, 134—Change of public opinion in favour of Government, 135—Popularity never fully regained, 135 . . . . . 110—135

## CHAPTER XXV.

### THE BOOM.

#### 1872–1874.

Expansion of trade, 1871–4, 136—Revenue advancing by leaps and bounds, 136—Foreign companies started, foreign loans offered, 136—Loans create demand for English goods, 137—High prices, enormous profits, 137—Demand not permanent, 137—Harvest-time for promoters, 138—Rise of wages, 139—Decline of trade, disputes, strikes, lock-outs, 139—Financial panics in Berlin and Vienna, 1873, 139—Repudiation of Turkish debt, 139—Collapse of credit, 139—Depreciation in value of securities, 140—Bad harvests, 140—Shrinkage of prices and reduced demand, 140—"Solidity" of English commerce, 140—Prosperity of 1871–4 greatly exaggerated, 141—Evil effects of the "prosperous

times," 141—Budget speech of 1872, 141—Remission of twopence of income tax, 142—Economy in 1871-2, 142—Reduction of expenditure in 1872, 142—The system of estimating for the revenue, 143—Estimated surplus £3,600,000, 144—Extension of limit of abatement and amount of abatement for income tax, 144—Duty on coffee reduced, 144—Melancholy history, 145—Dwindling consumption, 145—Remissions of taxation, 1872, 146—Realized surplus, £5,900,000, 146—Budget of 1873, 146—Estimated increase of ordinary expenditure, 146—Estimate of revenue founded on receipts of previous year, 147—Claims of American Government for damage done by Confederate cruisers, 148—History of the negociations, 148—Lord Stanley offers to submit claims to arbitration in 1867, 148—Difficulties arise, negociations broken off, 148—Question of arbitration revived, 1869, 149—Negociations again broken off, 149—Resumed in 1871, and an agreement come to, 149—"Indirect claims" brought forward and withdrawn, 149—Arbitration, 149—Decision of Conference, damages assessed at £3,200,000, 149—Remissness of Executive with regard to *Alabama*, 150—Advantages of arbitration, 150—Question whether the whole of the award should be met in the current year, 150-1—Half to be met from the surplus and half to be left over, 151—Reduction of income tax, 151—Reduction of duty on sugar, 152—Policy of this second reduction of duty on sugar discussed, 152—The Ashantee War, 152—Vitality of revenue, 1873, 153—Second half of *Alabama* award met, 153—Financial review of the period from 1869-73—Natural increase of expenditure, 154—Economy difficult when revenue elastic, 154—Comparison of optional expenditure, 1867 to 1873, 155—Increase of expenditure mainly due to "Purchase," telegraphs, and education, 155—The Post Office in 1867 and 1873 compared, 156—Increase of receipts from "business" stamps, and death duties, 156—From duties on articles of general consumption, 157—Lowe's principle of taxation, 157—Duty of Chancellor of the Exchequer to distribute his "misery" as equally as he can, 157—Review of Lowe's policy, 158—Remissions and impositions divided between direct and indirect taxation, 158—Policy of relinquishment of corn duty and sugar duty, 158—Lowe's action in regard to the debt, 160—Total amount of debt paid off, 1869-73, 160—Lowe as a financier, 160 . . . 136—161

## CHAPTER XXVI.

### THE ELECTION AND THE INCOME TAX.

1874.

The Liberal Government defeated over the Irish University Education Bill, 1873, 162—The unsatisfactory nature of the Bill, 162—Disraeli refuses Office; resumption of Office by Liberals, 163—Changes in the Ministry in the autumn, 163—Sudden dissolution of Parliament, 164—Gladstone's election address, 165—A Budget address, 165—Proposes the abolition of the income tax together with other financial changes, 166—Return of the Conservatives, 167—Reason for the defeat of the Liberals, 167—The income tax a permanent institution, 169—Its history, 169—Amount of receipt per penny, 170—Its qualities and its faults, 170—Its incidence unfair, 171—The difficulties of reforming it, 171—Committees of 1851 and 1861, 171—Imposed as a temporary tax, 172—Inequality of the tax, 173—Difficulties of distinguishing between different sorts of incomes, 173—A searching enquiry should be held to see if improvement is feasible, 174 . . . . . 162—175

## CHAPTER XXVII.

### NORTHCOTE.

1874.

A Conservative Government in a majority is formed, 176—The disorganization of the Liberal party, 176—The policy of the Government, 177—Flourishing condition of the finances, 177—The expenditure for 1873, 177—Change in the system of revenue estimates, 178—Advantages and disadvantages, 179—Northcote's Budget of 1874, 180—A surplus of five millions and a half, 180—The absorption of the interest on public loans raises it to six millions, 180—Reduced again by the creation of terminable annuities, 181—The policy of treating the interest of local loans as miscellaneous revenue, 181—Adverse effect on the debt, 182—The division of the surplus, 183—The question of local taxation, 184—Should local taxation be relieved by Imperial grants? 184—The Liberal view, 185—The Conservative view, 185—The attempt of the late Government to deal with the question, 185—The grant-in-aid of 1874, 186—The result, 186—Total abolition of the sugar duty, 187—Was it wise? 187—Abolition of the horse duty, race horse duty, and horse dealers' licence, 188—History of these duties, 188—The income tax, 189—Reform postponed, 190—Reduced to twopence, 190—Summary of the proposals of 1874, 190—Intended future reform of taxation, 191—Opportunity does not recur, 191 . 176—191

## CHAPTER XXVIII.

### UNEVENTFUL.

1875.

Growth of expenditure; necessity for increased taxation, 192—The condition of the Navy, 193—Ward Hunt's Navy scare, 193—He changes his tone, 193—Partly justified in his remarks, 194—Misfortunes of the Navy, 1870 to 1877, 195—The Army well managed, 196—The revenue and expenditure for 1874, 197—The Budget of 1875, 197—The revenue, 197—The surplus small and unsatisfactory, 198—The hopes of financial reform of the year before vanished, 198—The income tax, 198—Northcote's debt scheme, 199 . . 192—199

## CHAPTER XXIX.

### THE NEW SINKING FUND.

1875.

Foundation of the National Debt, 200—Its history, 201—Under Walpole, 201—Its increase through the Great War, 202—Its increase between 1815 and 1856, 203—Its reduction since, 204—The total in 1886, 204—Reasons for rapid redemption, 205—Example of our forefathers, 205—Small amount now annually redeemed, 206—Importance of the New Sinking Fund of 1875, 206—The debt charge not raised since 1866, 207—The time had come for some greater effort, 207—History of the early sinking funds, 207—The Walpole-Stanhope sinking fund, 208—Plundered by Walpole, 208—Pitt's automatic sinking fund, 1786,

209—Founded on a surplus, 209—The fallacy underlying the scheme, 209—A pleasing delusion, 209—Reason of its failure, 210—How far Pitt himself deluded, 210—The sinking fund during the war, 211—Difficulties of suspending the sinking fund, 211—Its one advantage, 212—Upshot of the whole transaction, 212—History of the sinking fund between 1792 and 1823, 213—Reduced by Robinson and Huskisson in 1823, 214—The Finance Committee of 1828, 214—Only the surplus revenue to be applied to the purposes of the sinking fund, 215—Borrowing to feed the fund abolished, 1829, 215—Goulburn's proposal to keep a surplus of three millions for the reduction of debt, 1829, 215—The three millions disappear, 215—The "old sinking fund," 215—The new system satisfactory, 215—The results of Pitt's sinking fund; £480,000,000 borrowed to feed it, 216—Loss to the country, 216—Lewis's scheme of 1856, 217—Northcote's new sinking fund of 1875, 217—Founded on a sound principle, 217—The plan simple and intelligible, 218—A fixed sum to be voted for debt charge each year, 218—Expected results on the redemption of debt, 219—Expected annual surplus of half a million, 219—Surplus not forthcoming, 221—The proposal of 1875, 220—The promise much greater than the performance, 221—The sinking fund effective in 1875, and again in 1876, when taxation imposed to maintain it, 221—Afterwards kept going by borrowing, 221—The new sinking fund a valuable institution, 222—Advantages and disadvantages of it, 222—The evil arising from the over sanguine expectations raised by it, and since unfulfilled, 223 . . . . . 200—223

## CHAPTER XXX.

### THE CALM BEFORE THE STORM.

1875—1877.

Depression of trade; fears of war, 1876, 224—The revenue of 1875 from articles of general consumption at its maximum, 224—Supplementary estimates in 1875, 225—The expenditure and revenue for 1875, 226—The estimates for 1876, 227—Increased expenditure on the Army and Navy, 227—Cautious estimate of revenue, 227—An estimated deficit on ordinary expenditure alone, 228—Taxation necessary, 228—A penny added to the income tax, 228—The limit of exemption and abatement extended, 229—The financial result of the year 1876, 229—The Budget of 1877, 230—Unsatisfactory condition of trade, 230—A narrow surplus, 231—Peace estimates, 231—War expenditure, 231—Comparison between the expenditure of 1877 and that of 1873, 231—Optional expenditure, 231—Reduction of debt, 232—Annual growth of revenue, 233—A hum-drum Budget, 233—Northcote's various Budgets, 233 . . 224—234

## CHAPTER XXXI.

### THE EASTERN QUESTION.

1876—1878.

Domestic legislation at a standstill 1876-77; foreign affairs embarrass the finances, 235—Purchase of the Suez Canal shares, 235—A measure of precaution, 236—The results springing from it, 236—The cost, 237—Revival of the Eastern Question in 1875, 237—Insurrection in Bosnia and Herzegovina, 237—The Andrassy

Note, 237—The Bulgarian atrocities, 237—Revolutions in Constantinople, 238—Servian war; Russia's assistance, 238—Conference of Constantinople, 238—The Protocol of London, 239—Russia declares war in 1877, 239—British neutrality, 239—The Prime Minister at the Guildhall, 239—Suspicion of Russian designs, 239—The Russian advance on Constantinople 1878, 240—English military preparations, 240—The Fleet sent to the Bosphorus, 240—The Treaty of San Stefano, 240—Russia's refusal to submit it fully to the Congress, 240—Further war preparations: Lord Derby resigns; succeeded by Lord Salisbury, 241—The Congress of Berlin, 241—Secret Treaties, 241—The Treaty of Berlin, 241—Finance, January, 1878, 241—Vote of Credit, 242—Warlike preparations, 242—The Budget for 1878, 242—Expenditure out of the Vote of Credit, 243—Supplementary estimates; complication of the finances of 1877 and 1878, 244—Additional supplies required, 244—The cost of the Kaffir War and that of bringing the Indian troops to Malta omitted from the estimates, 245—Parliamentary control thus practically disappearing, 245—Deficiency for 1877, 246—Expected deficiency for 1878, 246—The Civil Service estimates swelled by increased grants-in-aid, 246—The Prisons Act, 246—The Army and Navy estimates, though peace estimates, are higher, 246—Falling off of the revenue, 247—A deficit left on ordinary expenditure, 247—The war expenditure, 247—The deficiency on ordinary expenditure and the supplementary estimates to be met in the year, 247—Addition of twopence to the income tax; the tobacco duty and dog tax increased, 248—The year 1878 the antipodes of 1874, 248 . . . . . 235—248

## CHAPTER XXXII.

### WAR EXPENDITURE.

### 1878—1880.

A second Budget, August, 1878, 250—Growth of expenditure; fresh liabilities, 250—Deficit; no additional taxation proposed, 250—Debt to be spread over future years, 251—Issue of further Exchequer Bonds, 251—Third Budget, February, 1879—Vote of Credit for the Zulu War, 251—Additional issue of Exchequer Bonds, 251—Expenditure, revenue and deficiency of 1878, 251—The first Budget for 1879, 251—Surplus over ordinary expenditure swallowed up by further expenditure on the Zulu War, 252—The system of "spreading" liabilities, 252—No attempt made to meet past liabilities, 253—"Flabby, shabby, and inadequate," 253—The arguments of the Chancellor of the Exchequer, 253—The supposed difference between adding to the debt and postponing payment of debt for a few years, 254—A second Budget necessary in July, 1879; a further Vote of Credit for the Zulu War, 255—No taxation imposed, 255—Further Vote of Credit, March, 1880, for South African wars, 255—Savings on expenditure and deficiency of 1879, 256—Loan to India, 256—Ten millions of liabilities, 256—Budget of 1880, 256—Equilibrium between revenue and expenditure, 256—Surplus created by an increase in the probate duty, 256—Six millions of the war liabilities converted into a terminable annuity to run till 1885, 257—Charge to be met by the new Sinking Fund, 257—Sinking Fund increased, 257—Discussion on the question of the expenditure of 1877–80, and the means taken to meet it, 257—The rule that should be applied to the liquidation of war expenditure, 258—Want of courage in meeting liabilities, 259 . . . . . 250—259

## CHAPTER XXXIII.

### "1880."

Saving on the ordinary expenditure of 1879, 260—Diminution of revenue 1879, 260—Growing depression of trade; all classes suffering, 261—The Budget of 1880, 261—Difficulties abroad: Egypt, South Africa, Afghanistan, 262—The Cave Mission to Egypt 1875, 262—Deposition of the Khedive; the Dual control, 262—Annexation of the Transvaal 1877, 262—The Zulu War, 263—Its cost, 263—The Afghan question, 263—Negociations with Russia, 263—Difficulties with the Amir, 264—Mission to Cabul, 264—A Resident insisted on; the war, 264—The Treaty of Gandamak, 264—Murder of Cavagnari, 265—Second expedition to Cabul, 264—Difficulties, 265—Final evacuation, 265—The cost of the Afghan inbroglio, 265—England assists India, 265—Trade affected by the wars and the heavy expenditure, 266—Depression everywhere, 267—Reciprocity, 267—The session of 1880 opens favourably, 267—Activity of the first two Sessions of the Parliament, 268—Foreign policy takes the place of domestic reform, 269—The changes in the Cabinet, 269—Dissolution, 269—Result of the elections, 270—A Liberal majority returned, 270—Gladstone Prime Minister, 271—The financial proceedings from 1874 to 1880, 271—Increased expenditure, 271—Additions to taxation, 272—The floating debt; the Balances, 272—Reduction of the debt, 273 . . . . 260—273

## CHAPTER XXXIV.

### GLADSTONE REDUX.

### 1880—1882.

Gladstone again becomes First Lord of the Treasury, Leader of the House of Commons, and Chancellor of the Exchequer, 274—Duties that cannot be satisfactorily combined nowadays, 274—Gladstone resigns Chancellorship of the Exchequer to Childers, 275—Second Budget of 1880 introduced by Gladstone, 275—Supplementary estimates since March, 1880, 275—The Afghan War, 275—Negociations for renewal of French Commercial Treaty, 276—Commutation of malt duty into a beer tax, 276—History of the beer duty and malt tax, 276—Repeal of the beer tax, 1830, 276—Sydney Smith thereon, 277—Commutation and abolition of the malt duty frequently proposed, 278—Malt looked upon as an "agricultural interest," 279—Curtailment of "malt credits," 279—Abolition of malt duty would involve great loss of revenue, 279—Would necessarily imply relief on spirits, 280—Spirits the national beverage of Ireland and Scotland, 280—Improbability of revenue relinquished by reduction of malt duty being recovered, 280—Increased consumption of beer might actually involve loss of revenue, 281—Evils of the malt duty, 281—A tax on raw material, 282—Interfered with free cultivation of crops, 282—Abolition of malt duty impossible on account of loss of revenue, 282—Reduction not remove the evils of the tax, 282—Commutation of tax from malt to beer the only feasible project, 282—Difficulties of commutation, 283—Inspection necessary during process of brewing, 283—Number of brewers gradually reduced since 1853, 283—Advantages derived from commutation, 283—Duty on sugar used in brewing to disappear, 284—Old system of brewers' licences to be abolished, 284—Plan of commutation as finally carried out, 284—Effect on

revenue of the change, 286—Commutation satisfactory, 285—Produce of malt duty and beer tax, 286—Year 1880 favourable for commutation, 286—Drawback to be repaid to maltsters, 287—A penny of income tax imposed to meet the charge, 287—Charged upon one half year, 287—Increase of spirits licence, 287—Public houses and hotels, 288—Net result of second Budget, 288—Transvaal expedition, 289—General revenue elastic, 289—Contribution to cost of Afghan War, 289—Analogies between Gladstone's Budgets of 1860 and 1880, 290—Slight revival of trade, 291—Increase in number of ships built, 1881-2-3, 291—Great over-production of shipping, 291—Remission of a penny of income tax, 291—Spirit duties re-adjusted, 291—Re-adjustment of probate and legacy duties, 292—History of the "death duties," 292—The probate duty, 292—Legacy duty, 293—Account duty, 293—Original form of probate duty, 293—Of legacy duty, 294—Rates of duty, 294—Revised in 1815, 294—Old scale of probate duties, 295—Testate and intestate estates, 295—Simplification of, in 1881, 295—Commutation of probate and legacy duty on small estates, 296—Probate duty to be charged on the net estate, 296—Remission of the one per cent. legacy duty on lineals, 296—Increase of the probate duties, 296—Exemption of property in mortmain, 296—Anomalies in succession duty payable on real and personal property, 297—Anomalies in probate duty, 298—Revenue from death duties, 298—Gross revenue and expenditure, 1881, 298—War expenditure four millions, 298—Budget of 1882, 298—Unsuccessful proposal to increase carriage tax, 299—Vote of credit for Egyptian Campaign, July, 1882, 299—Imposition of 1½*d.* income tax, 299—Gladstone's thirteen Budgets, 299—Substantially all his fiscal and financial proposals carried through, 299—Review of the period between 1853 and 1882, 299 . . . . 274—299

## CHAPTER XXXV.

### THE END.

1880–1887.

Difficulties besetting the Government of 1880; the Transvaal, Egypt, the Soudan, 301—Constitution of the Cabinet, 301—Obstruction, 301—Reforms, 302—Irish legislation, 302—Foreign affairs, 302—Concert of Europe, 302—Egypt, bombardment of Alexandrian forts, Tel-el-Kebir, occupation by British troops, 303—The Soudan; the relief expedition; fall of Khartoum, 303—Federation, 303—The year 1885, 303—The Afghan question, 303—Fall of the Liberals; Lord Salisbury Prime Minister, 1885, 303—General election; Gladstone's third administration; Home Rule, 304—Defeat of the Government; general election; return of the Conservatives, 304—Financial proposals of 1883 and 1884, 304—The debt scheme of 1883, 304—The year 1885 anticipated, 305—Large amount of terminable annuities then falling in that year, 305—The details of the scheme, 305—Estimated results of the scheme if left untouched, 306—Not left untouched, suspension of annuities in 1885, reduction by two millions in 1887, 307—But scheme a good one, 307—Attempt to reduce the interest on the National Debt in 1884, 307—The proposal; its failure, 307—Conversion scheme of 1888, 308—The railway duty, history of the tax, 309—Parliamentary trains of 1844, 309—Increase of cheap trains, 309—Remission of duty, 310—Proposal to rehabilitate gold coinage, 1884, dropped, 310—The gross expenditure for 1880; for 1881, 1882, 1883, and 1884, 311—The extraordinary expenditure,

debt charge, and optional expenditure for the same years, 311—The expenditure on the Army and Navy, 312—Increase of taxation, chiefly direct, 312—The revenue in 1880 and 1884, 313—And in 1881, 1882, and 1883, 313—The bad harvest and depression of trade, 313—Reduction of debt, 313—Expenditure of over 90 millions in 1884, 314—The Budget of 1885, 314—An estimated expenditure of 102 millions, 314—Deficit of 15 millions, 314—To be met partly by taxation, partly by suspension of terminable annuities, and partly carried over, 315—Proposed increase of beer and spirit duties and of the income tax, 315—Other taxation, 316—Amended Budget, 316—Defeat of the Government on their Budget, 316—Resignation, 316—Hicks-Beach Chancellor of the Exchequer, 317—No indirect taxation to be imposed, 317—The income tax to be raised to 8*d.*, 318—The terminable annuities and the sinking fund to be suspended, 318—Final results of 1885, 318—Decline of revenue, 319—Far-reaching effect of the defeat of the Budget, 319—The great expansion of expenditure of late years, 319—Comparison with the expenditure of thirty years back useless, 319—The Army and Navy on a different footing altogether, 319—New social wants, 320—Vast expenditure, yet inefficiency of the war services, 320—Re-organization, 320—Will real efficiency or economy be secured in the future? 321 . . . . . 301—321

## APPENDICES.

PAGE

APPENDIX A.—Changes in the system of presenting the public accounts . 323
„ B.—Introduction to the Budget tables . . . . . 329
„ C.—Tables of the annual Budgets from 1858 to 1885 . . . 333
„ D.—Debt table from 1857 to 1885 . . . . . 363
„ E.—(1) Gross expenditure from 1857 to 1885 . . . . 364
(2) Gross revenue from 1857 to 1885 . . . . . 365
„ F.—Net expenditure from 1857 to 1885 . . . . . 366
„ G.—(1) Gross expenditure from 1791 to 1885 . . . . . 367
(2) Gross revenue from 1791 to 1885 . . . . . 368
„ H.—Expenditure on administration from 1801 to 1885 . . . 369
„ J.—(1) Tobacco duty . . . . . 370
(2) Land tax . . . . . 373
(3) Licences . . . . . 374
„ K.—The income tax schedules; and the rate in the £ between 1799 and 1888 . . . . . 377
„ L.—Direct and indirect taxation . . . . . 380
„ M.—Difference of burden of Death Duties on Personalty and Realty . . . . . 384
„ N.—List of Prime Ministers and Chancellors of the Exchequer from 1783 to 1887 . . . . . 386

INDEX . . . . . 387

# FINANCE AND POLITICS.

## CHAPTER XIX.

### REFORM.

### 1866—67.

The Parliament elected in 1859 came peacefully to an end in July, 1865, and a general election ensued. No election, perhaps, ever excited so little interest. But for the legal efflux of time, there was no apparent reason why the old Parliament should have given place to a new. Palmerston was still alive. The Government had made no glaring blunders; they had obtained no striking successes. There was no particular political question for decision; there was no real dividing line between parties.

One or two particular contests were, however, of some interest. In the City of London the four Liberals (Mr. Goschen heading the poll) defeated by large majorities the two Conservatives who had alone ventured to contest the seats. At Westminster John Stuart Mill was returned; at Oxford University Mr. Gladstone was defeated.

This last incident was of national importance. Gradually Mr. Gladstone had come to be recognised as the natural leader of the advanced and reforming Liberals, and to be pitted, in popular estimation, against the chief whom clearly he would succeed. In 1864 he had, in what was practically a reply to an anti-Reform speech of Lord Palmerston's, emphatically declared himself in favour of further reform, and expressed the opinion that the question ought not to be left until agitation arose, but that agitation should be forestalled by "wise and provident measures." * In 1865, on a motion with reference to the Irish

* *H.*, May 11, 1864.

ALLENDALE COLLEGE LIBRARY

Church, he had in effect supported the plea that its position was unsatisfactory, and had pointed out the essential difference between the Church of England and the Church of Ireland, which ministered "to the religious wants of only one-eighth or one-ninth part of the community."* Then, in answer to a letter of expostulation from a constituent,† he had said—and herein he was, as I believe, prompted by the same feeling which actuated him later on the Home Rule question—that so long as the matter "was remote and apparently out of all bearing on the practical politics of the day," he entertained a very strong "sense of the responsibility attaching to the opening of such a question, except in a state of things which gave promise of satisfactorily closing it." But it was clear that, when the question of disestablishing the Irish Church became ripe for decision, Mr. Gladstone would be prepared to deal with it on lines of reform.

In proportion as Mr. Gladstone had gone up in the estimation of the Radical party, he had gone down in that of the University electors. As some forty years before Peel had, under somewhat similar circumstances, been ejected from the representation of the sister university, so now Mr. Gladstone, after a sharp struggle, was defeated, and compelled to seek a Lancashire seat. At last unmuzzled, he became at once the recognised leader of the Party of Progress. ‡

Lord Palmerston did not long survive the Parliament in which he had been supreme. He died at the good old age of eighty-one, dying, as he had lived, in harness.‖ Since he was twenty-three years of age he had been a member of the House of Commons. At twenty-four he had taken his place on the Treasury Bench, and from that time until his death he was almost continuously in office. He had served under Portland, Perceval, Canning, Goderich, and Wellington; under

* *H.*, March 28, 1865. † June 8, 1865.

‡ "At last," he said when addressing his first meeting in Lancashire, "I have come among you, and I have come—to use an expression which has become very famous, and is not likely to be forgotten—I have come among you, unmuzzled." (July 18, 1865.)

"When Parliament was dissolved in July of this year, P. again applied to me (to secure Gladstone's return for Oxford University). . 'He is a dangerous man,' said P.; 'keep him in Oxford and he is partially muzzled, but send him elsewhere and he will run wild.'" Lord Shaftesbury in his Diary, October 25, 1865; *Life*, iii. 188.

‖ October, 1866.

Grey, Melbourne, Russell, and Aberdeen,* and had himself twice been Prime Minister. First a Tory, then a Canningite, and then a Whig, he ended his days as a "Palmerstonian." His long experience, combined with genial manners, good humour, and light touch, together with the social influence which both he and Lady Palmerston so well knew how to exert, † gave him, in his second premiership, a stronger position than that held by any minister, irrespective of mere numerical strength. The "Tory chief of a Radical Cabinet," Disraeli had called him even in 1857 ; ‡ and, in his second term of office he could, when occasion required, command the full weight of the regular Opposition, for he seemed to the Conservative party in the House of Commons a safer man than their own brilliant but erratic leader.‖ The Whigs clung to Palmerston as their rock of defence against the radicals ; while the presence of Mr. Gladstone—"the key-stone of the arch which connects Birmingham with Tiverton"** —at the Exchequer, and of Mr. Milner Gibson at the Board of Trade, retained for the Government the lukewarm support of the latter.

To Lord Palmerston "tenant right was landlord wrong." He was opposed to the extension of the suffrage and to the ballot, and to "other mischievous things" of the sort.†† So much, indeed, did he dislike reform, that he plotted with the Conservatives, in order to defeat the Paper Abolition Bill of his Chancellor of the Exchequer, and again plotted with them, in order to get rid of the Reform Bill of 1860, on which his Foreign Secretary had set his heart, and to which the Cabinet had agreed.‡‡ These secret intrigues with the Opposition

* Peel and Derby were indeed the only two Prime Ministers, since the days of Portland, under whom he did not serve.

† See Mr. Heyward's biographical sketch of Lady Palmerston (*Essays*, New Series, vol. ii.). Lord Shaftesbury (*Life*, iii. 190) notes in his diary. "These parties at Cambridge House gave golden bridges of opportunities to all of different opinions." We all know Mr. Disraeli's disraelian Speech at Slough in 1858, when, speaking of Lord Palmerston having attracted newspapers over to his side, he said that now the editors, the "once stern guardians of popular rights, simper in the enervating atmosphere of gilded saloons."

‡ Address to constituents at general election of 1857, March 17th.

‖ Compare Malmesbury's *Memoirs of an Ex-Minister*, ii. 54, &c.

** So said Bernal Osborne.

†† So Palmerston wrote in 1848 (to Lord Normanby) (Ashley's *Life*, i. 82). See his speech in 1864 (*H.*, April 13), when opposing a Reform Bill. It was this speech that Mr. Gladstone answered a few nights later.

‡‡ Thus we find Lord Malmesbury writing in his Diary, under date June 2, 1860 :

against the members of his own Cabinet * constituted, I think, a serious blot on the political character of a man usually accepted as the very type and pattern of an English politician.

It is no matter of surprise that, with such a chief, the domestic legislation of the period was of the most meagre description; though foreign politics, in the then disturbed state of affairs abroad, naturally attracted considerable notice. Suspicion of France, sympathy with Italy, detestation of Russia, dislike of the "North," compassion for Denmark, all gave rise to heated and earnest debates; while the mismanagement of the Schleswig-Holstein question gave to Lord Palmerston the one severe shake that he received. A "nigger revolt" in Jamaica, in 1865, suppressed with needless severity and bloodshed, created some excitement. But, with the exception of finance, the legislative history of the Palmerston Parliament of 1859 to 1865 was nearly a blank. Some show of activity there had been at first; but, as time wore on, promises became scarcer, and performance still more scanty. The speech from the throne of 1865 was, as Lord Derby described it, "of just such a character as might have been expected to have been addressed by an aged minister to a moribund Parliament." So little interest did it arouse, that neither the Leader of the Opposition nor the Leader of the House took part in the perfunctory discussion upon it—a fact which may well seem incredible to us, in these days, when the address is made the battle-ground of parties, an occasion when every topic, human and divine, is subjected to the "dreary drip of dilatory declamation."

Rest and be thankful! † was the cry of the old Reformers;

"I had a satisfactory interview with Lord and Lady Palmerston yesterday. They are as anxious as we are to get rid of the Reform Bill, but do not exactly see their way. It is evident he does not wish to lose Lord John, though he would be very glad if Gladstone resigned." *Memoirs*, ii. 228–9. And Lord Derby writes to Lord Malmesbury: "I should be quite ready to assure Lord Palmerston that, though we might in debate object to some of the 'sayings and doings' of the Foreign Office, we would not countenance any movement on the subject of foreign policy calculated to defeat the Government, unless it were on the impossible supposition that they should desire us to take an active part in an attack by Sardinia and France on Venetia. *Ib.*, ii. 244. See Count Vitzthum's *Reminiscences*, ii. pp. 63, 178, &c.

* Palmerston, wrote Lord Shaftesbury, in 1865, "had but two real enemies, Bright and Gladstone. . Bright and Gladstone were the only two of whom he (Palmerston) used strong language." (*Life*, iii. 187.)

† Lord Russell, the veteran Reformer, said in 1864 that as far as "Reform was concerned, and other reforms, the country should rest and be thankful."

and the more eager Radicals could but fold their hands and wait as patiently as might be the decease of the aged Premier. Reform, as Bernal Osborne humorously put it, "is at a discount; its name is never heard: our lips are now forbid to speak that once familiar word. There is a political millennium. The Conservative lion is lying down with the Liberal lamb. The calm is almost a stagnation: chickweed is on the face of our debates."

Certain political questions periodically cropped up, but mostly had to wait for settlement until after Palmerston's death. The question of Church-rates* was a standing dish. The University Tests Bill came up now and again; a Burials Bill made no progress. An Endowed Charities Act was passed. A Bill to deal with "superfluous Churches" managed to struggle into an Act. Clerical subscription was somewhat relaxed; and the Rubric was looked into. Indeed, the public mind, when not occupied with financial questions or foreign affairs, was greatly exercised on matters of religion. The House discussed ecclesiastical questions; Convocation busied itself in condemning *Essays and Reviews*, and in trying to unapron a Colonial Bishop.

Two important measures were, indeed, carried through Parliament: one, the Union Chargeability Act of 1865, greatly relaxed the restraints on the free circulation of labour, and practically abolished the system of settlement and removal of the poor; the other, the Revised Education Code of 1861-2—arising out of the Report of the Duke of Newcastle's Commission of 1858—had a considerable immediate and after effect on the system of national education. By placing the payment of the Government Grant under more stringent—in many ways, probably, too stringent—conditions, this code did much to improve the quality and the thoroughness of the teaching, and constituted a stepping-stone to the great educational extension of some ten years later.

In financial matters alone was there any real activity; and the reforms, the relaxations and remissions of taxation of the time redeemed the period from absolute nonentity, and made it one of considerable importance. The general stagnation in domestic

* Settled in 1868 by the abolition of compulsory Church Rates.

affairs gave greater scope and better opportunity to the Chancellor of the Exchequer; his eloquence aroused an interest in financial questions that had never been felt before. In the absence of real party strife, Mr. Gladstone's elaborate financial expositions—the "wilderness of figures" relieved by disquisitions on the philosophy and the principles of taxation—were the event of the session, and were listened to with breathless attention by crowded Houses. To read them is an intellectual pleasure; to hear them was to come, as Pitt said of Fox, "under the wand of the magician." *

In addition to the many tariff reforms carried through, the Parliament of '59 is memorable as having (to quote the words of the Chancellor of the Exchequer in 1865) "raised a larger revenue than I believe ever at any period of peace, or even of war, after taking into account the changes in the value of money, was raised by taxation within an equal space of time." The expenditure was "upon a scale that has never before been reached in time of peace. The amount and variety of the changes introduced into the financial legislation were greater than within a like number of years of any former period." † These changes we have already detailed. To them must be added the creation of the Post Office Savings Banks, instituted by the Chancellor of the Exchequer in 1861. Savings banks, which have not only done very much to increase thrift and saving,‡ but have given to successive Governments a means they did not previously possess, of creating large amounts of terminable annuities, and thus greatly facilitating the redemption of debt. In 1864 the Government Annuities Act was also passed, enabling small annuities and life insurances to be purchased through the Post Office. In 1865 the Audit Board was consolidated with the Comptrollership of the Exchequer; and, in 1866, the very important Exchequer and Audit Act was

* "A great rhetorician, when he makes a comprehensive (financial) statement, may so charm his audience that when they are leaving the House they may be utterly ignorant as to whether a surplus or a deficiency really exists. But in the sober hour that follows the financial flourishes there is a power of appeal to documents, the accuracy of which cannot be impugned, and from which we can draw conclusions which no one can for a moment hesitate to accept." Disraeli in 1861.

† Budget Speech, *H.*, April 27th, 1865.

‡ The amount of Post Office Savings Bank deposits in 1886 was 51 millions; that in the "Trustee Savings Banks," 44, against the 40 millions of 1861. The Trustee Savings Banks dated from 1798.

passed, under which the system of audit of the public accounts was greatly improved.

In 1865 the law respecting "limited liability" was amended, and the principle further extended. The Cheap Trains Act of 1864 (due to Lord Derby's initiative) improved the railway accommodation for the poorer classes, and gave facilities to working men to live in cheaper and healthier localities than had been hitherto possible. There was, of course, a Bankruptcy Act; no period is complete without one or more of these valuable and unworkable instruments. The Trade Marks Act of 1862 gave property rights in trade marks, punishing their fraudulent use by heavy penalties; an Act that, improved from time to time, was, in 1887, brought further to completion by the absolute prohibition of the import of any foreign goods marked with English trade marks, or with a colourable imitation of them.*

And this was the sum total of the achievements of the Palmerston Parliament—this, and the annexation of an extra night for the "despatch of business." †

One or two other kindred features of the period should not be left unmentioned. In the summer of 1866 Europe and America were at last connected by a submarine telegraph. A cable had been successfully laid as long before as 1858, but the insulation had immediately failed. An unsuccessful attempt had been made in 1865 to lay another cable; but it was not until 1866 that success had attended the effort; and in that year not only was the new cable successfully laid, but the ends of the broken cable of the year before were picked up. In 1863 the first section

* Merchandise Marks Act, 1887.

† They substituted Thursday for Friday as a "Government night," and Tuesday was taken as a "supply" night; that is to say, that the Government "set up supply"—*i.e.*, the estimates—and if the motions by private members on going into Committee of supply did not consume the whole of the available time, the estimates came on. As a matter of fact now-a-days, when the number of private members' questions requiring, or thought to require, discussion, has enormously increased, and when the tendency on the part of the Government is more and more to encroach on the time set apart for private members, the number of motions on "going into supply" on other than Government nights (when with certain exceptions such motions are not allowed) is so great, that the estimates are seldom or never reached. Friday, not Tuesday, is now a "supply night;" and in 1872 the Government took Monday also for "supply." "Counting outs," says Molesworth (iii. 268), "had now (1862) become a regular institution." Count outs, which are now-a-days chiefly due to weariness of the flesh consequent on lengthened sittings, and to pity for the officials of the House, were in those days due chiefly to lack of interest in political questions.

of the Metropolitan Underground Railway was opened. In 1865 an Act was passed for bringing under one roof the different Courts of Justice in London—a work that was not completed until nearly twenty years later.

In 1855 the Metropolitan Board of Works had been created, —the Metropolis being, however, still deprived of that real self-government which all other large towns could enjoy under the Act of twenty years before—and various public works were undertaken by them about this time. In 1858, an Act had been passed for the purification of "that noble river," the Thames; the state of which was then, as it is still, "little creditable to a great country, and seriously prejudicial to the health and comfort of the inhabitants of the Metropolis."* Three millions of money were raised by the Board of Works on the security of the rates, and applied to this purpose. In 1862, the Board were authorized to build an embankment on the north side of the Thames from Westminster Bridge to Blackfriars Bridge, the money to be raised on the security of the London coal and wine dues. A little later powers were also obtained to make an embankment on the south side of the river.

By 1865 the old order was changing, giving place to new. Lord Palmerston had been preceded to the grave by many of the best-known politicians of his day, the old Peelite party especially having suffered great loss. Sidney Herbert, Sir James Graham, the Duke of Newcastle, Sir George Lewis, Cobden, Lord Elgin, Lord Canning, had all lately passed away; † and, within a year or two after Lord Palmerston's death, Lord Russell and Lord Derby had likewise practically disappeared from public life.

Lord Palmerston was succeeded by Lord Russell, with the same "cast" as before, except that Lord Clarendon took Lord Russell's place at the Foreign Office, and Mr. Goschen a few months later succeeded Lord Clarendon at the Duchy of Lancaster; while —and this was by far the most important change—Mr. Gladstone

* Queen's Speech on Prorogation of Parliament, 1858.

† See Mr. Gladstone's eloquent and touching references to the losses the country had thus lately sustained, in his address on being presented with the freedom of Glasgow, Nov. 1, 1866. In 1865 died also Leopold of Belgium—the "Umpire of Europe"—and in that year Lincoln was assassinated. Two men well known to fame of the class of "permanent officials," retired about this time from active service—Sir R. Hill and Sir R. Griffith.

became Leader of the House of Commons in the place of Lord Palmerston.

A change had indeed come. At the very first meeting of the new Cabinet, the Ministers framed heads of inquiry on which they desired information for the purposes of a Reform Bill; and the Bill itself (the fifth abortive Reform Bill since 1832) was introduced early in the following session.

From the very first it was evident that this Bill was doomed. It was in itself but a poor thing, which excited and could excite no enthusiasm amongst its supporters; while it was met by the active opposition of the Conservative party, still sincerely detesting reform—an opposition at once reinforced by a section of the Palmerstonian Whigs and the dissatisfied Liberals. The dwellers in the Cave believed they could stave off reform if the Russell-Gladstone administration were beaten. The Conservatives naturally desired its defeat. The new House nominally contained a large Liberal majority, but it was a majority returned to support Lord Palmerston and not to support Reform. Now Lord Palmerston was dead, and his mantle had fallen upon another, who, with all his genius and all his eloquence, lacked one characteristic that Lord Palmerston had pre-eminently possessed: Mr. Gladstone was not, and has never become, a man of the world.

The second reading of the Bill was carried by a majority of five only. Forced, against their will, to make Redistribution simultaneous with Reform; beaten, on the question of the introduction into the Bill of clauses relating to corrupt practices at elections, the appetite of their enemies was only whetted by the concessions of the Government.

The groundwork of the Bill was next called in question. The Coalition Opposition desired "rating" to be substituted for "rental" as the basis of representation. Mr. Disraeli's convenient aphorism of the following year had not as yet been invented; the discovery had not yet been made that it was expedient that Parliamentary Reform should no longer be a question which should determine the fate of Ministries. The Government took down, therefore, "the last weapon in their armoury:" they treated the amendment as a question of confidence; and, in a House to which a Liberal majority of between seventy and eighty members had been returned in the previous

summer, a Liberal Government was, a year later, left in a minority of eleven.*

The moment was scarcely a propitious one for resignation. The Austro-Prussian War had just begun; the Bank rate was at 10 per cent.; Fenianism was active both in Canada and Great Britain. Resignation involved, moreover, the immediate massacre of many innocents on whom great hopes had been built. But even before the final division it had become so perfectly clear that the Government did not enjoy the confidence of the House of Commons that

'Twas better they should go than stay.

They therefore resigned, and Lord Derby reigned in their stead. In 1866, as in 1886, the Conservative Premier elect applied to the seceding Liberals to help him to form a Government on an enlarged basis—"enlarged not as to principle but as to persons"—but in vain, and Lord Derby was constrained for the third time to form a Government on a purely Conservative basis and a Government in a minority. Mr. Disraeli, Leader of the House, went again to the Exchequer; Lord Stanley was at the Foreign Office, and Sir S. Northcote at the Board of Trade, shortly to succeed Lord Cranborne (lately Lord R. Cecil, soon to be Lord Salisbury), at the India Office.

The defeat and resignation of the Liberals stirred the Reformers to renewed efforts. Simultaneous meetings were held all over the country—in those days, when the Caucus was not, such agitation meetings were rare, and occurred only in moments of peculiar excitement.† Reform was in the air; and Reform could

* June 18, 1866, 304 for to 315 against Government. Of the 657 members returned, 367 were described as "Liberals" and 290 as Conservatives. (Irving's *Annals of Our Time*, p. 559.) On Lord Grosvenor's (Duke of Westminster) amendment to the second reading, which the Government defeated by only five, 318 Liberals and two Conservatives voted with them, and 282 Conservatives and 33 Liberals against. On Lord Dunkellin's division—the fatal division—on which the Government were defeated by a majority of eleven, one Conservative voted with them and 44 Liberals against. (Harris' *Radical Party in Parliament*, pp. 471–73.)

† One of these Reform meetings has become historical, and may be mentioned here in passing, inasmuch as the Civil Service estimates of 1866 and 1867 were swelled by some thousands of pounds, the cost of replacing the Hyde Park railings. The "Hyde Park Riots," which drew tears from the Home Secretary, arose through the refusal on the part of the Government to allow the Reform League to hold a meeting in the park. The League determined to test their rights, and a procession went to the park, and on being refused admittance, retired to Trafalgar Square. There had been no intention, on the part of those who headed the procession, of creating a riot, but the mob got out of hand, charged the park railings guarded

no longer be refused by any Government desirous of retaining office. The defeat of the Liberal Government was really a victory for Reform. The Liberals would have chastised the Adullamites with whips, the Conservatives chastised them with scorpions. The trumpery proposals of 1866—a £14 rental in counties and a £7 rental for boroughs—grew by defeat into a £10 rating in counties and into household suffrage in the boroughs. A House that had rejected the first, accepted the last without a division; and finally, instead of only 460,000 persons being admitted to the suffrage, some 1,140,000 were almost immediately enfranchised: so true is it that, under our system of representative government, the opponents of change often do well to make peace with their adversaries quickly whiles they are in the way with them.

In 1867, therefore, the Conservative Government, after first trying for a lead from the House itself by means of resolution, and after next introducing the "ten minutes" Bill in order to keep the Cabinet together, at last produced a Reform Bill which the House was ready to accept as a basis for discussion.* "Pass the Bill," said the Prime Minister, "and then change the Ministry if you like." Acting on this policy, the Government were perforce content to accept any amendments on which the House chose to insist—and they experienced a period of humiliation to which Mr. Disraeli afterwards, in 1873, somewhat bitterly referred when he refused again to accept office in a minority.†

by the police, and pulled them down amidst a free fight. The Government continued to persist that the Crown had the right of prohibiting meetings in the park, and in 1868, in order definitely to settle the matter, they introduced a Bill with that object. The Bill was, however, withdrawn, common sense prevailed, the prohibition against orderly meetings was finally withdrawn, and since then Hyde Park has been a rendezvous for all distressed grievances, from Tichborne to Reform.

* *H.*, March 12th, 1866.

† "I know well," said he, "and those who are around me know well, what will occur when a Ministry takes office and attempts to carry on the government with a minority during the Session, with a view of ultimately appealing to the people. We should have what is called 'fair play.' That is to say, no vote of want of confidence would be proposed, and chiefly because it would be of no use. There would be no wholesale censure, but retail humiliation. A right hon. gentleman will come down here, he will arrange his thumb-screws and other instruments of torture on this table—we shall never ask for a vote without a lecture; we shall never perform the most ordinary routine office of government without there being annexed to it some pedantic and ignominious condition. . . . In a certain time we should enter into the Paradise of Abstract Resolutions. One day hon. gentlemen cannot withstand the golden opportunity of asking the House to affirm that the income tax should no longer form one of the features of our ways and means. Of course, a proposition of that kind would be scouted by the right hon. gentleman and all his colleagues; but

Thus in almost every particular the Reform Act differed from the Reform Bill as originally introduced. The Bill bristled with securities and provisions, fancy franchises, checks, compensations, and counterpoises—they all disappeared. "The Government," said the Leader of the House, "will never introduce household suffrage pure and simple"; the Act was one of direct enfranchisement,—a five pound copyhold and a twelve pound occupation franchise in counties, and a ten pound lodger qualification and pure household suffrage in the boroughs.* But *a* Bill, if not *the* Bill, passed at last, and the country received not only a Reform Act but a Reform.†

The Reform Bill of 1858 had cost the Conservative Cabinet two of their members. That of 1867 cost them three—General Peel, Lord Carnarvon, and Lord Cranbourne. The Bill nearly lost the Liberals their leader also. On one important occasion a large number of Liberals—the "tea-room" party—deserted Mr. Gladstone at a critical moment, and he, in disgust at the disorganized and mutinous state of the party, temporarily retired from any active share in the debates. Nor was it indeed until the following session, when the Premiership of Mr. Disraeli re-united the Liberal party in a desire to oust the Tories, and the question of

then they might dine out that day, and the resolution might be carried, as resolutions of that kind have been. Then another hon. gentleman, distinguished for his knowledge of men and things, would move that the Diplomatic Service be abolished. While hon. gentlemen opposite were laughing in their sleeves at the mover, they would vote for the motion in order to put the Government into a minority. . . . And it would go very hard if on some sultry afternoon some hon. member should not 'rush in where angels fear to tread,' and successfully assimilate the borough and the county franchise. And so things would go on until the bitter end—until at last even the Appropriation Bill has passed, Parliament is dissolved, and we appeal to those millions who perhaps six months before might have looked upon us as the vindicators of intolerable grievances, but who now receive us as a defeated, discredited, and degraded Ministry, whose services can be neither of value to the Crown nor a credit to the nation." (*H.*, March 20th, 1873.)

* It was said at the time that the only part of the original Bill that remained was the first word, "Whereas." According to Mr. Homersham Cox, *Whig and Tory Administrations* (1868), out of the 61 sections of the Act only four were the work of the Conservative Ministry. The Bill originally consisted of 43 clauses, of which 21 disappeared, 39 others being substituted. Of the original 22 retained, 18 were taken from the Bill of the previous year (pp. 51—52).

The acquiescence of the Government in all these amendments, which entirely changed the character and the results of the Redistribution as well as of the Reform Bill, had, said General Peel in the bitterness of his spirit, taught him three things:—"The first is that nothing has so slight a vitality as a 'vital point;' the second, that nothing is so insecure as a 'security;' the third, that there is nothing so elastic as the conscience of a Cabinet Minister."

† "There is an essential difference, and a perilous one," said Mr. Bright on the address in 1867, "between a Reform Bill and a Reform."

Irish Church gave them the opportunity, that Mr. Gladstone resumed the active leadership.

It was not only domestic and political agitation which made 1866 a memorable year. On the Continent Austria was defeated, Venetia ceded, Germany revolutionised, Russia aggrandised. War, pestilence, and scarcity almost amounting to famine, scourged Europe. At home, cholera and cattle plague devastated the country. Irish distress and Irish discontent were at one of their acute stages. The bubble of unsound financial inflation of the last few years had been pricked, and financial collapse succeeded, culminating in the panic of "Black Friday."

Fenianism had begun to show above the surface in the autumn of 1865. But the English people continued to comfort themselves with the belief that the ferment was in no way a proof of inward discontent and disloyalty, but merely a surface disturbance produced by a few ruffianly "agitators," and by a few disbanded Federal Irish soldiers; the Irish people at large, it was confidently asserted, were more contented, peaceful, and loyal than ever before.* Stringent measures were adopted against Fenianism. The very first act performed by the new Parliament had been rapidly to run a Coercion Bill, the suspension of the Habeas Corpus Act, through the House, the Bill receiving the Royal assent within twelve hours of its introduction into the Commons.† The Act was renewed in the following August, twice renewed in 1867, and once again in 1868; the "suspension" prevailing until March, 1869. Under the provisions of this Act, some thousand persons—including O'Donovan Rossa and James Stephens—were in the first two years imprisoned. The Fenians retaliated by a

* See Debates, Feb. 21st and May 23rd, 1868 (Coercion Bill), and March 10th and 16th (State of Ireland), 1868; Queen's Speech, 1866; Disraeli's speech on third reading of Irish Church Bill, 1869 (May 31). In an election speech at Aylesbury (Nov. 19, 1868), Mr. Disraeli described Fenianism as a "plant of foreign growth." "The Fenians," said he, "knew that in Ireland there is always a degree of morbid discontent which they believe they might fan into flame, and which might lead to the revolutionary result they desired. The whole nature of the race will account for it. An Irishman is an imaginative being. He lives on an island in a damp climate, and contiguous to the melancholy ocean. He has no variety of pursuit. There is no nation in the world that leads so monotonous a life as the Irish, because their only occupation is the cultivation of the soil before them. Men are discontented when they are not amused."

† In 1848 the suspension of the Habeas Corpus Act was introduced on the 22nd July, and passed through the House in one day, and the House of Lords on the 24th. We manage these things somewhat differently now-a-days.

futile "invasion" of Canada, by outrages and risings in Ireland, by an intended surprise of Chester Castle. In the attempt to rescue the prisoners from a police van at Manchester, police constable Brett was killed. In the reckless and dastardly attempt to blow down the walls of Clerkenwell prison, some fifty persons were killed or injured. At last, Fenianism was put down, and the nation were again for a space able to shut their eyes to the existence of Irish discontent, and comfortably to assume the certain efficacy of the "remedies" about to be proposed for the final pacification of Ireland.

The cattle plague—the rinderpest—of 1865 and 1866 not only caused a considerable direct money loss to the farmers, but by necessitating the temporary suspension of the cattle trade, still further injured the agricultural interest, which was only just recovering from the effects of the bad harvests of 1860–3.*

The financial crisis of the spring of 1866 was a much more serious matter in every way. For the third time in twenty years the directors of the Bank of England were empowered by the Government of the day to suspend the "Bank Charter Act," the history of which we must now proceed to trace.†

The Charter of the Bank of England dated from 1694, when the Bank was incorporated, on condition of its advancing to the Government £1,200,000—the nest egg of the National Debt. The Charter was renewed from time to time, and the debt due by the Government to the Bank continued to increase, until by 1834 it amounted to £14,700,000.

In 1797, in consequence of commercial crises and drain of gold abroad, the bullion in the Bank was reduced to a million, and the

* From the beginning of the plague to January, 1866, some 120,000 head of cattle were officially reported diseased; of these some 90,000 died or had to be killed. The actual number was considerably greater. The direct money loss was computed at not less than £3,500,000 (see *Annual Register* of 1866, p. 182).

† See especially for the history of the Bank Charter Act, and of the different commercial crises, Francis, *History of the Bank of England* (1847); Crump's *Manual of Banking;* Levi's *History of Commerce*, and *Manual of Commercial Law;* Lord Overstone's collection of Tracts on *Metallic and Paper Currency*, 1847 (private circulation); Lubbock's Essay on the Bank Act of 1844, in *Addresses*; Porter, p. 447; Wilson's *Capital, Currency and Banking* (1847); Sheldon Amos, *Fifty Years of the English Constitution*, p. 123; Massey, *History*, iv. 214; *Fenn on the Funds;* Reports of Bullion Committee, 1810; Bank Committees of 1819, 1832, 1836, 1840, 1841, 1847 and 1857; Peel's Speeches of May 6th, 1844, and Dec. 3, 1847; Lewis' Speech of December 11th, 1857; Tooke, each volume, especially vol. iv.; McCulloch's writings; *Annual Registers*, 1797, 1826, 1844, 1847, 1857, 1866; and *Hansard*, &c.

Government, by an order in Council, instructed the Bank (perfectly solvent at the time), to suspend cash payments, and an Act was passed restricting the Bank, "for a limited time," from paying its notes in gold. The restriction, at first intended to extend over a period of seven weeks only, lasted for more than twenty years, until 1821, when the Bank resumed specie payment.* In 1826, after the financial panic and collapse of the autumn and winter of 1825, some alterations were made in the Charter. In England and Ireland—Scott, by his letters, defeated the Government in their proposal to extend the prohibition to Scotland—the one and two pound notes were withdrawn, and no notes under five pounds were in future to be circulated. The Bank of England was allowed to establish branches in many of the chief commercial centres. The limit formerly existing (in the interest of the Bank of England) on the number of partners in any private bank—namely six—was removed; but, again for the benefit of the Bank of England, banks of issue were prohibited from being opened within 65 miles of London. On the renewal of the Charter in 1834, considerable further governmental interference in the affairs of the Bank took place. Publicity of accounts was enforced; the liabilities, assets, bullion, and note issue of the Bank, up to that time kept private, were now to be periodically published. The debt due to the Bank was reduced by repayment to eleven millions. Joint Stock banks, prohibited under the Act of 1823 from opening offices within 65 miles of London, were now allowed to do so, though still prohibited from issuing notes if domiciled within that radius. The notes of the Bank of England were made legally payable only at the place of issue, thus freeing the Bank from the responsibility and cost of maintaining large stocks of bullion at its different branches. The annual payment to the Bank for managing the public debt was reduced.†

In 1844, the Charter was for the ninth time renewed. Repeated enquiry and discussion had necessitated some considerable change; and a sweeping alteration was made in the mode in which the business of the Bank was to be conducted. The Act of 1844 was intended to be the complement of that of 1819, which had provided for the resumption of specie payment. Though, by

* See *I. 16.* † See *I. 284.*

custom, the Bank always now held a considerable reserve of bullion, in addition to its securities, against the issue of its notes, there was no legal guarantee to prevent an over-issue of notes in time of pressure, and thus the absolute convertibility of notes and gold, which it was intended to have secured by the Resumption Act, was endangered. But the proposal of 1844 affected alone the question of issue; the business operations of the Bank were left otherwise perfectly free. The Act was, indeed, as Sir John Lubbock describes it, rather a "Bank Note Act" than a "Bank Act."* The privilege of issue, both in the case of the Bank of England and of other banks, may, as Peel said, be "fairly and justly controlled by the State," while in the banking business "there cannot be too unlimited and unrestricted competition." Acting on this principle, the issue department was separated absolutely from the banking department; each was to have its separate offices and separate accounts. The former, to which was to be transferred the whole of the bullion, was to be placed under Government supervision; the banking department was to be conducted, as before, on strictly commercial principles. The issue of notes was to be carefully restricted, and to "take place on two foundations only: first on a definite amount of public securities, secondly exclusively upon bullion." † The foundation of securities was the eleven millions sterling which the Government owed to the Bank, and three millions of Government securities held by the Bank, fourteen millions in all.‡ The other "foundation" was the stock of coin and bullion in hand. If the stock of bullion were diminished, notes were to be called in; if it were increased, by so much might the issue of notes be enlarged. A weekly statement of the position both of the issue and of the banking departments was to be publicly rendered. In regard to the existing banks of issue, their future issues of notes were to be subject (especially in England) to considerable limitation, and were not to exceed their existing average issue; while no bank not already issuing notes was to be permitted to do so in the future.

The policy of the Bank Act—whether on the whole it has acted

* *Addresses*, p. 26.

† Peel. *H.*, May 6, 1844; see his Speech also, *H.*, Dec. 3, 1847.

‡ A limit subsequently raised from time to time as other bank issues have fallen in, until it now stands at £16,200,000. See *Order in Council*, September 15th, 1887

advantageously or on the whole disastrously; whether it has, by diminishing the power of accommodation, tended at times to aggravate pressure in times of difficulty, or whether its extension just at that moment has been a powerful factor in allaying panic —I will not attempt to discuss. The highest authorities differ diametrically on these points.* One thing is, however, quite clear, that no Bank Act can prevent a crisis, whether it be a "credit" or a "mercantile" crisis. Currency and solvency are not necessarily the same thing; and it is not within the power of the government or the legislature to guarantee an unlimited supply of cheap money. As Huskisson once pointed out—"of paper currency there are two sorts: the one resting upon confidence, the other upon authority"; and while the convertibility of notes and gold can by law be made absolutely secure, it is chimerical to suppose that any legislation can guard against financial panic, that most unreasoning of all things. There were panics before the Bank Act, there are panics under its operation, there would be panics if it were repealed.

Thrice—in 1847, 1857, and 1866—has it become necessary, in the opinion of the Government of the day, to "suspend" the Bank Act. That is to say, in order to enable the Bank to give a greater amount of "accommodation," to discount more freely, and by an increase of currency to diminish the exceptional pressure caused by destruction of credit, the Government have advised the Bank, if necessary, to extend its discounts and advances (on approved securities) by the issue of notes beyond the legal limits fixed by the Bank Act, themselves undertaking that, in the event of the directors acting on their advice, they would obtain indemnity from Parliament for the violation of the law. Thrice have these crises occurred, but only once, in 1857, has an infringement of the law actually taken place. In 1847, and again in 1866, the power given to the Bank to grant additional accommodation, the fact that the Government were visibly

* Sir George Lewis once said, that "Peel's Act did great good, except for a week once in ten years, but in that week it did so much evil as almost to counterbalance the good it had done before." Sir John Lubbock, on the other hand, asserts that "The three panic years of 1847, 1857, and 1866, so far from being periods when the Act broke down, were times when it proved most useful. The reserve, which was intended to maintain the convertibility of the note, was temporarily used to support public credit." (*Addresses*, p. 35.)

standing behind the Bank, did much—for panic and confidence are alike contagious and sentimental, and rapidly alternate—to allay apprehension, and to bring the acute stage of the crisis to an end.

A few words must be said in reference to each of the three panics. The first, as we have seen, was chiefly due to the speculation in connection with the rapid extension of the railway system. From August to October, 1847, there was one "uninterrupted progression of disaster, discredit, and dismay."* The amount of bullion at the Bank fell in that time from nearly sixteen millions (with a rate of discount of 3 per cent.) to eight millions and a half (with a rate of 8 per cent.). The reserve of notes and coin had, by October 16th, fallen to three, by the 23rd to under two millions.† On October 25th came the Government letter, and the panic was allayed.

In 1857 the crisis was even more severe. The stock of bullion fell at one time to 6½ millions, and the reserve to under a million, while the minimum rate of discount rose to 10 per cent. Between November 12th and December 2nd the discounts and advances of the Bank amounted to 12½ millions. On this occasion the Bank availed itself of the authority given it by the Government, and the "Banking Department" received two millions of additional notes from the "Issue Department" in excess of the legal maximum. Of these, however, notes to a value of only about £930,000 were actually put into circulation. The action thus taken did much to allay the panic, the rate of discount was quickly lowered, and the proportion of notes to bullion soon resumed its normal state.

The crisis of 1866 was in some ways more acute and more prolonged even than those that had gone before. The "Black

* Tooke, iv. 317, &c., an interesting account of the crisis.

† The crisis of 1825 had been considerably more acute. In February, 1824, the bullion in stock amounted to £13,800,000, and the notes in circulation to £19,700,000. By August, 1825, while the outstanding notes had been diminished by only two or three thousand pounds less, the stock of bullion had fallen to £3,640,000. In December, 1825, the "treasure of the Bank (says Mr. Tooke), was on the point of being exhausted." "We were (as Huskisson said later) within 24 hours of a state of barter"—the bullion and coin were reduced to a million. When the Bank of England suspended payment of its notes, under the orders of Pitt's Government in 1797, the stock of bullion was but £1,086,000, and the liabilities were not nearly so great as in 1825. In 1837 the stock of bullion fell to £3,800,000; in 1839, to £2,400,000.

Friday"* of that year, the worst crisis that has ever been known in the City, will never be forgotten; the after effects were felt for years. The rapid improvement in trade, profits, and business generally of the previous few years had been followed by the usual speculation, inflation, and over-trading. The inflation on this occasion was especially increased by the recent rapid and undue development, both in France and England, of commercial companies, and especially of credit companies, founded on the system of "limited liability," with vast liabilities and but little solid foundation or real capital at their back.† Such companies were prosperous enough while all else was prosperous, but withered away at the first blast of financial storm and stress—

> "He brags to-day, perchance, and begs to-morrow,
> He lent but now, wants credit now to borrow."

Railway and other public works had been rapidly developed; trade and commerce had made gigantic strides; an undue demand for monetary accommodation had been created, and this being suddenly checked a collapse necessarily followed.‡ In the latter days of 1865, and the beginning of 1866, the rate of discount had risen to six or eight per cent.; the London, Chatham and Dover Railway had come to grief, other railways were in difficulties, and railway contractors began to fail. In May, 1866, followed the totally unexpected and gigantic failure of the discount house of Overend & Gurney, with engagements amounting to nearly twenty millions. Other failures—among them that of the great railway contractors Morton, Peto & Co.—rapidly followed. Wild panic at once took possession of the public mind, discount and

* May 11th, 1866. The original "Black Friday" was that of December 5, 1745, after the battle of Prestonpans and the advance of the Pretender to Derby.

† In 1851 a committee had been appointed to enquire into the law of partnership and the question of the limitation of liability. In 1853, a reference on the same matter was made to a Royal Commission, then sitting, appointed to enquire into the mercantile law of the Kingdom; but in 1854 they reported by a majority against any change in the direction of limitation of liability in connection with companies. In 1855, the Government introduced a Bill to limit in certain cases the liability of shareholders, and in 1856, 1857, 1858, and again in 1862 and 1865, the system of "limited liability" was fully developed, any seven or more persons being allowed to associate themselves in the formation of a company with limited or unlimited liability. See Levi's *History of Commerce*, Part iv., Chap. vii.

‡ Between 1856 and 1868, 300 companies were formed in the United Kingdom with a nominal capital of a million or upwards each, aggregating £500,000,000 of capital, and of these 178, and of the capital invested more than two-thirds, disappeared. *Ib.*, p. 431.

advances were temporarily at an end, and blank ruin seemed impending over all.

Overend's failed on the 10th, and, on the following day, the Directors of the Bank of England laid their position before the Government. They had that day advanced "upwards of four millions sterling, an unprecedented sum to lend in one day." They had begun the morning with a reserve of notes and coin of £5,727,000, but when they wrote to the Government very nearly half that amount had been already drawn upon, and their total reserve was but three millions. The representations of the Bank were strongly supported by other influential persons and bodies; and the Government—Russell and Gladstone signing the letter—for the third time advised the suspension of the Bank Act; and, again, without the Directors being under the necessity of acting on the "advice" thus given them, the panic was immediately mitigated.*

The panic of 1866 was—as the Government pointed out in their letter to the Directors of the Bank of England—essentially a "credit crisis," due to a sudden and unexpected failure of mutual confidence, and in this respect differed from the panics of 1847 and 1857, which were mostly attributable to mercantile collapse. The results of the crisis of 1866 extended over several years. Trade itself was in a sound and healthy condition, there was distress but not decay; "capital," as it was said, "was on strike." Credit and confidence had received such a shock that the value of all securities remained for a long time

* In April, 1825, Consols were at 93; by February, 1826, they had fallen to 73. In May, 1846, they were at 97¼; by March, 1847, they had dropped to 87, and by October fell momentarily to 78. In February, 1857, Consols were at 97; in October they fell at one time to 86½. In April, 1865, they were at 91; in January, 1866, they averaged 87, and in May, 86, falling at one time as low as 84; by June, 1867, they had risen again to 94. (See *P. P.* 3 of 1847, 131 of 1857, and 324 of 1870.) The price of Consols, as an infallible indication of the gravity of the situation, comes out graphically in Sir Francis Doyle's account of the arrival in America of the news of the convulsions of '48. "The first man who landed (in America) from the steamer with a newspaper of the 11th in his hand, was carried off, and lifted into a conspicuous position above the heads of an anxious crowd. 'Read out, read out,' was the general cry. The traveller began to deliver his formal account from the *Times*, when he was interrupted by an universal shout, 'Oh, bother all that, what are the funds?' '92⅜,' or just what the case might be, was the answer given. 'That's enough, thank you,' rose up on all sides, and the assembly dissolved itself like *les neiges d'autan*. The acute Yankees learned the general result from these figures, and could afford, as practical men, to wait for details till they were completely at leisure." (*Reminiscences*, p. 315.)

greatly depreciated.* Lord Clarendon, the Foreign Secretary, had thought well soon after the panic, to write a circular letter to our Ambassadors abroad, in order publicly to point out that the crisis had not in any way been caused by unsoundness of trade, but was due to temporary causes; and to show that scarcity of money and insolvency were not necessarily the same thing. But *qui s'excuse, s'accuse*, and the letter, instead of alleviating mistrust abroad, did something to increase it.†

In 1873 Mr. Lowe introduced a Bill to regulate the Bank Act, with a view of preventing its illegal suspension. The proposal was practically to empower the Government to do that which they had done without authority at previous times of panic. They were to be enabled to authorise an issue of additional Bank notes beyond the legal limit in their discretion, and subject to certain conditions. The Bill met with no support, and was withdrawn.

* The fall maintained for some time in the value of securities quoted on the Stock Exchange was estimated at a hundred millions—a fall which had the natural though curious effect of momentarily reducing the yield from the "death duties," in consequence of the depreciation in the capital value of estates on which the duty was charged.

† The Bank retained its rate of discount at 10 per cent. until the 17th August, thus, it was said, greatly extending the time during which uneasiness prevailed in the money market; and, by artificially keeping up the price of money, preventing the resuscitation or liquidation of many concerns which might otherwise have been again revived. From August, the rate was rapidly lowered from 8 to 3½ per cent. at the end of the year.

# CHAPTER XX.

## DEBT REDUCTION.*

1866—67.

The real test of the policy pursued by a Chancellor of the Exchequer in regard to the debt, is not so much the actual amount of debt which he manages to redeem during his term of office, as the amount specifically applied by him year by year to that purpose. The reduction of debt that takes place in a given year, beyond that for which provision has been specifically made, depends on whether a surplus be realized or no.† But the extent of the realized surplus or of the realized deficiency, much as it may redound to the credit or discredit of the Chancellor of the Exchequer as a financier or an economist, does not, except so far as it may have been anticipated at the time of the Budget, affect the question of his policy in regard to the reduction of debt.

And in comparing the action of one Chancellor of the Exchequer with that of another in regard to this question, account should be taken, not so much of the actual reduction of debt effected by each, as of the aggregate annual amounts voted for all the purposes of the debt.

If then, in considering the period from 1859 to 1865, we take the amount of the debt charge annually voted for management, interest, and repayment, and put aside the large realized surpluses of the latter years, which were due to elasticity of revenue and to increased economy, we find that the sums specifically applied to the purposes of the debt were considerably less than

* See also *Chap. X. 215–17*, and *Chap. XXIX.*, "The New Sinking Fund."

† The realized surplus of each quarter is not actually applied to the reduction of debt until twelve months later, but it goes to swell the Exchequer Balances, which is substantially the same thing.

those of any other period between 1800 and 1886. The average annual debt charge between 1860 and 1865 was but £26,240,000 a year, while, immediately after the great war, the sum applied to the purposes of the debt (irrespective of the artificial sinking fund) was no less than between thirty-one and thirty-two millions, and in 1858 still amounted to twenty-eight and a half millions.

Some two millions or more of revenue, previously applied to the purposes of the debt, had, as we saw, been diverted in 1860.* Since then, millions of taxation had been remitted, and the wealth of the country had been continually increasing; yet the only addition that had since been made to the charge for the debt was the conversion in 1863 of five millions of Savings Bank Stock, at an increased annual cost of about £165,000 a year. The debt charge had indeed been somewhat increased by the issue of certain terminable annuities on account of the annual fortification loans, but this increase had been necessitated by the actual creation of debt.† The debt charge in 1858 had amounted to £28,500,000; in 1860 it was £26,200,000; and the estimate for 1866, before the proposed change, was £26,140,000. In 1858 the annual charge for annuities for terms of years (exclusive of the "dead-weight" annuity) had been £2,340,000; in 1860 it was but £300,000, an amount which (through the two causes mentioned) had by 1865 been raised to £780,000 a year. Further, in 1867, would fall in the so-called "dead-weight" annuity, which, since 1823, had entailed an annual charge of £590,000 a year,‡ and this annuity at least must be replaced.

* See *I. 215–17.* "Well, what did Mr. Gladstone do with them (the '£2,200,000 that was dying a natural death')? It was a feat of legerdemain which exceeded any conjuring of M. Robert. He took one million and turned it into ducks, and then he took another million and turned it into drakes, and for half an hour these ducks and drakes flew cackling about the House of Commons, until at last we got ashamed of one another, and we ordered strangers to withdraw, and determined to keep it a profound secret until Parliament was dissolved."—Disraeli at Aylesbury, July 13, 1865.

† In all, by about £270,000 a-year, the loans already issued amounting to about 4¼ millions.

‡ The "dead-weight annuity" dated from 1823. The war had entailed a very heavy charge for naval and military half-pay and pensions, amounting to some five millions a-year, which would gradually expire. In 1822, the Chancellor of the Exchequer, Vansittart, desiring to obtain a fixed surplus of five millions a-year for the sinking fund, and desiring at the same time to reduce taxation, had endeavoured to commute the charge into a terminable annuity of £2,800,000 to run for 45 years—a truly original way of obtaining a "surplus" for the sinking fund, but one very much in consonance with the financial traditions in which Vansittart had been nurtured. The proposal failed. The annuities—with the exception of this annuity

Clearly the debt charge required to be increased, and in 1866 Mr. Gladstone at last proposed to move in the matter; to move indeed, but not after any very heroic fashion.

For another reason also, public opinion was in favour of action. A short time before the introduction of the Budget, a scare had arisen with reference to the possible and probable exhaustion of the coal supplies of England. Much interest and anxiety had been manifested on the subject; and a general opinion had been expressed that, whether the pessimistic prophecies were correct or no, they were at least founded on a substantial basis of fact, and it was generally agreed that the National Debt ought to be more rapidly reduced while the national coal-fields yet remained unexhausted.

The coal question was for some time hotly disputed.* It was urged that the consumption of coal was so rapidly increasing that, though the coal mines themselves were "literally inexhaustible," the cheap supply of coal must within an appreciable period come to an end; while even a moderate increase in the depth at which the coal had to be worked, would seriously impair the basis of England's wealth and prosperity—the power of cheap production.† The amount of coal available, that is, of coal within 4,000 feet of the surface, was variously estimated, as was also the probable annual rate of consumption. Some experts calculated the supply at eighty millions of tons, some at nearly double that amount.

In the last few years the consumption of coal had beyond all question rapidly increased. From 64,700,000 tons in 1854, it had risen to 85,600,000 in 1861, and to 92,800,000 in 1864, the average annual rate of increase between 1854 and 1864 having been 3·5 per cent.‡ Would then the future increase be in geometrical or would it be in arithmetical progression? The

amounting to £585,000, sold to the Bank for £13,000,000—could not be placed, though on the faith of the scheme some two millions of taxation had been remitted!

* The discussion gave birth to much literature on the subject. The chief authority on the one side was Mr. Stanley Jevons, who, in his *Coal Question*, took the desponding view; and on the other Mr. E. Hull, who, in his *Coalfields of Great Britain*, took the sanguine view of the situation. See also the Report of the Commission appointed in 1866 to enquire into the question, and who reported in 1871 (C. 435, 1871), and an exhaustive article on "*Coal*" in *Enc. Brit.*, 9th ed. Cf. Giffen's *Reduction of the National Debt*, written in 1867 (*Essays*, 1st S. p. 258).

† The coalfields of the United States covered, it was estimated, "seventy times the area of our own." (Report of Commissioners, p. xviii.)

‡ Jevons, p. 234; Hull (3rd ed. 1873, the original book was published in 1865), p. 417; Report of Commissioners, 1871, who say that the consumption of coal had increased from 2 tons 14 cwt. per head in 1856, to 3 tons 17 cwt. in 1869.

pessimists calculated it at the former, the optimists considered that the latter rate was the worst that was possible.* The more sensational calculations went to show that but a few years, as years are in the life of a nation, would elapse before England must "sink down into poverty." The less sensational calculations went to show, that even if the present increasing rate of consumption were but little checked, there was coal enough to last some 300 years; while, if the total annual consumption did not materially increase, the supply was practically unlimited. †

The estimates of the geometrical progressionists were founded on the transparent fallacy that all manufactures and works requiring coal would increase at the same geometrical rate; a fallacy well exposed by Mr. (now Sir) Hussey Vivian, whose intimate knowledge of the subject enabled him largely to allay the apprehensions that had arisen.‡ He pointed out that if the construction of railways increased in geometrical progression we should in 100 years be annually building 240 times as many miles of railway as we were then doing; that if the consumption of pig iron continued to increase at a like rate, in a hundred years the consumption, from the 4,770,000 tons of 1864, would have increased to 627,000,000 tons a year! Of the 93 millions of tons of coal then being consumed at least 30,000,000 were used for domestic purposes. To enable this consumption to increase in geometrical proportions for the specified period would require a population larger than would find standing room in these islands. If the wealth of the country, it might be added, increased also in geometrical proportion the national debt

* Mr. Jevons' (p. 240) calculation was that, if the consumption were not checked, by 1871, 117 millions of tons would be consumed; by 1881, 166 millions; by 1901, 331 millions; by 1941, 1,310 millions; by 1961, 2,607 millions; and that in the hundred and ten years between 1861 and 1970, some 103,100,000,000 tons, or more than the total available supply, would have been consumed. In 1871, the actual output was about 115,000,000, and in 1881, 154,200,000 tons—figures not far from Mr. Jevons's estimate. But by 1882 the amount had only increased to 156,500,000; and by 1886 it was still but 157,500,000 tons. Compare Hunt, *Mineral Statistics of the United Kingdom.*

† The estimate given by the Commissioners was that in the "visible coalfields," there were at depths not exceeding 4,000 feet some 90,207,000,000 tons of coal, and in "concealed coalfields" at the same depth a further 56,273,000,000 tons, or in all available 146,480,000,000 tons (pp. ix.–xii.), a supply sufficient, added the Commissioners, at the then yearly consumption (estimated for 1871) of some 115,000,000 tons, to last no less than 1273 years.

‡ *H.*, June 12, 1866.

need give no uneasiness—it would indeed be but a "flea-bite" in comparison.*

But whether the alarms were or were not absurdly exaggerated, whether, what Professor Tyndall called the "life blood" of the country was ebbing away rapidly, or only drop by drop, it was clear that a material portion of the natural capital of the country was being annually consumed, and that, while there was yet time, the incubus of the National Debt ought to be removed.† Viewed in this light Mr. Gladstone's proposal was, to say the least, inadequate. Only an additional half million was to be put aside and added to the annual amount applicable to the redemption of the debt. And so slight would be the effect of this addition that it would still take 250 years to extinguish the debt.

The change of Government and the additional supplies required in the year, prevented the debt scheme from being carried through in 1866. Reluctantly postponed by Mr. Disraeli, it was taken up again and brought to completion by him in the following year. Mr. Disraeli had himself once spoken somewhat disrespectfully of the Debt (he would perhaps have been equal to "damning the Equator") as a mere "flea-bite." ‡ In 1857 he

* In 1873, in consequence of the enormous price to which coal had risen, threatening a "coal famine," a Select Committee was appointed to enquire into "the causes of the present dearness and scarcity of coal" (*P. P.* 313 of 1873). The Committee showed that far from there being a scarcity of coal in the sense of diminished production, the produce had risen from the 101,500,000 tons of 1866 (the year of the other scare) to 123,400,000 in 1872. But wages had greatly risen, the hours of labour had been curtailed, and the output of coal per man in 1872 was only 299 tons against the 321 tons of 1870 (p. iv.). The result of this increased cost of production, and of the extraordinary demand for coal for manufactures and for export, had so increased the price, that house coal, which in 1868 had averaged about 18*s.* 6*d.* at the wharfs, rose in 1872 to 24*s.* 11*d.*, and in the first five months of 1873 to 32*s.* 6*d.* (p. ix). The Report stated that the order of events had been, first a rise in the price of iron, then a rise in the price of coal, and lastly a rise in the rate of wages. The Committee were unable to offer any suggestion to the Government as to the best mode of dealing with the "famine." See *II. 138 n.*

† England is a country, argued John Stuart Mill, "whose population greatly exceeds that which, with the existing resources of science, can be supported from its own soil. We are therefore dependent for subsistence upon the power of disposing of our goods in foreign markets; and as our command over these markets depends upon the possession of an exhaustible material," the existing generation and the one or two that would follow "are the only ones which will have the smallest chance of ever being able to pay off the National Debt."

‡ Mr. Disraeli defended himself from having thus made free with the National Debt, by saying that it was not that he did not consider the National Debt a serious and a grave fact, but that he had made the remark "in answer to a great booby on the hustings of his county, who quoted the great amount of the National Debt as a

had acted as though the reduction of the Debt were of secondary importance; he had preferred to remit twopence of the income tax rather than to meet the war debt. But now he both preached and practised the wiser doctrine.

By 1867 the coal scare was already to a very large extent a thing of the past, and Mr. Disraeli, in introducing his proposal,* refused to found his argument on the coal question:—"my intellect is not equal to questions of that magnitude." He founded his proposal on the more humble, but, nevertheless, wise and sound policy of gradually diminishing the burden of the National Debt in time of peace. And he argued, moreover, that most fiscal reforms had already been carried out, and "putting aside the malt tax, there is no particular tax that can be practically allowed to be one that unduly interferes with the industry of any portion of the community, or one which from unjust pressure demands or necessitates attention," and that it was therefore time to pay more attention to the question of the reduction of the debt.

The proposal made by Mr. Disraeli was substantially the same as that made by Mr. Gladstone the year before, namely, to convert twenty-four millions of Savings Bank Stock into terminable annuities, to run until 1885. With this simple operation—"Operation A," as he called it—Mr. Gladstone had intended to combine a further operation—"Operation B"—by means of which any balance of the annual amount paid over on account of the terminable annuity, and not required for the ordinary business of the savings bank, should be re-invested year by year in further terminable annuities. The method proposed under this scheme was too complicated, the effects too remote; and Mr. Gladstone was the first to acknowledge that his successor was exercising a "sound discretion" in confining himself to the simpler operation.

The surplus fund of the Post Office and Trustee Savings Banks, that is, the surplus of deposits over withdrawals, amounted

reason why we could not vindicate the honour of the country or even defend its independence; that, compared with such considerations, the public debt would be—he would not use the familiar expression—but that it might be compared to the annoyances of the most troublesome, though not really the most unpopular, of insects." (Budget Speech, 1867.)

* Budget Speech, *H.*, April 4th, 1867.

in 1867 to about forty-five millions, of which about ten millions had been already converted into terminable annuities,* and to this was now added a further twenty-four millions. The annual cost of the new annuity which was to run until 1885, would be £1,760,000 a year, against which had to be set the saving of the annual interest on the stock cancelled, amounting to £720,000 a year, and the annual saving of £586,000 a year which accrued by reason of the falling in of the "dead-weight" annuity. Thus the total increased annual charge for the debt during the next eighteen years from 1867, would be about £450,000 a year, which, together with the net increase from the small conversions of 1866 and 1867, would bring up the debt charge from the 26 millions to which it had fallen to about 26½ millions a year.†

The system of terminable annuities is somewhat complicated and requires a few words of explanation. A certain amount of outstanding debt—Funded Stock or Exchequer Bonds—is cancelled, and in lieu of it, an annuity, which includes both the interest on the debt and its repayment, is created to run for a fixed and limited number of years. In other words, the burden of the debt is temporarily increased, in order that at the end of a fixed period a certain definite portion of it may be absolutely redeemed. The aggregate charge is the same year by year during the currency of the annuity, but the proportion representing interest gradually diminishes as that representing capital repayment increases, until, during the last few years of the annuity, nearly the whole of the annual charge represents capital repayment, and only a very small portion the annual interest. It is no uncommon practice for a Chancellor of the Exchequer, in calculating the redemption of debt effected in his period of office, as compared to that

* Namely, five millions of Savings Bank Stock in 1863, and another five, converted half in 1866, and half in 1867. In regard to this latter sum of five millions, Mr. Gladstone had, at the beginning of the Session of 1866, introduced and passed a Bill abolishing two small sinking funds, and converting £5,000,000 of Post Office Savings Bank stock into terminable annuities to run until 1885. The annuity would cost some £335,000 a year, against which there was a saving of £135,000 on the two sinking funds, and £150,000 on the interest of the stock cancelled, leaving a net increase of debt charge on the two operations of but £50,000 a year. In consequence of the stringency of the money market, and a run on the Savings Bank in 1866, it was only thought well to convert half the amount in that year; the remainder was converted in 1867.

† See *P. P.* 189 of 1872. The actual net increase in the charge on account of the terminable annuities of 1866 and 1867 was £640,000 a year.

effected by his predecessors, to assume to himself credit for the greater redemption annually effected by means of existing terminable annuities as they more nearly approach their end; whereas, as a matter of fact, he has only had to stand by and to allow an automatic process previously set on foot to work unchecked.

The system of terminable annuities dates from 1692. In earlier days "long annuities" were often created to run over a period of as much as 99 years. The most famous of these annuities was that which expired in 1860, and was a sort of "King Charles' head" to Chancellors of the Exchequer for many years before and after that date. The annuities of early days were usually created as an additional attraction to the purchaser,* for the purpose of facilitating the issue of loans.

Life annuities date from 1808. These could be purchased, either by cash payments, subsequently devoted to the purchase and cancellation of stock, or by the transference to the Treasury, and subsequent cancellation, of stock at the current price of the day, the amount of the annuity granted depending on the age of the annuitant.† But the whole of the life annuities outstanding do not amount to much more than a million a year. And the system of terminable annuities, while in many ways advantageous to the State, is not attractive to the investor; and, except to a very small extent, Government annuities cannot be placed except at prices entailing loss on the Exchequer. The reason is not far

* In issuing his Crimean War loan of 1855, Sir Geo. Lewis revived this system. The loan was issued at the rate of £100 in Consols and a terminable annuity of 14*s.* 6*d.* to run for 30 years, for every £100 in money subscribed. These terms were reckoned as equivalent to a loan in Consols at 87§. (See Northcote, p. 265.) The total amount of the annuity created was £116,000 a year, to run until 1885.

† The celebrated Finance Committee of 1828, appointed to enquire into the increase of expenditure, and to suggest means whereby "an effectual control" could be established over the "receipt, custody, and application of the public money," and "what further measures can be adopted for reducing any part of the public expenditure without detriment to the Public Service," found on examination that the tables on which the annuity calculations had been based, were so very disadvantageous to the Treasury that the country was losing heavily on the transaction, the loss already incurred being calculated by Mr. Finlaison, the Actuary of the National Debt, at £2,233,000. On the report of the Committee, an Act was immediately passed (9 Geo. IV., c. 16) to suspend the further grant of life annuities. Fresh tables were constructed in 1829, and a new system of Government life and deferred annuities was instituted, which practically forms the basis of the present system. So accurately were the new tables calculated that, between 1835 and 1853, among the purchasers of Government Life Annuities, "the very identical number of deaths, neither more nor less, which it was computed would occur among the male nominees enrolled had, in fact, actually occurred." (See *P. P.* 110 of 1828; *P. I. and E.* ii. 569; *P. P.* 656 of 1853; and *P. P.* 339 of 1884, p. 70.)

to seek. Persons who desire to hold annuities much prefer a life, or deferred, annuity, to one running over a fixed period. Again, the tendency of Government stocks is to rise. But the annuity, when created, is calculated at the current price of Consols; and thus the annuitant, if he had kept his stock instead of converting it, could probably have sold it ultimately at a profit; while, if he re-divides his annuity into its component parts of capital and interest, and re-invests the former year by year, he may find at the end of the term, that in consequence of the rise in price, he holds less stock than he did at the beginning, and to that extent has been a loser. One other fact militates against the popularity of terminable annuities. The income tax is charged not merely on that portion of the annuity which represents interest, that is "income," but also on that portion which represents "capital," and thus an increase in the income tax involves special loss to the Government annuitant.

Of late years, however, another mode of disposing of terminable annuities in considerable quantities has arisen. Gradually, as the excess of deposits over withdrawals in the Post Office and Trustee Savings Banks has increased, a larger and larger surplus fund has been accumulated and invested in Government stocks. These stocks can be taken and converted into terminable annuities; that is to say, the stock is cancelled for a limited period of years, and the Government pay a fixed annual sum to the credit of the Savings Bank. The sums thus annually received are, as far as they are not required for withdrawals or to meet payment of interest on deposits, re-invested in the funds. Thus, by the end of the term—if the price of stock has not varied, and if the full "capital" amount of the annuity has been re-invested—the Savings Banks again holds stock equivalent to that which they formerly held and which was originally cancelled. This transaction is rendered possible by the double capacity of the State as debtor and banker: debtor because of the National Debt, banker because of the moneys which it receives from the depositors in the Savings Banks. The State moreover is not only debtor and banker, but it is even now—for casual deficiencies, for the creation of new debt, or for the purpose of manipulating the old—often a borrower as well, and in connection with these transactions, the system of termin-

able annuities has incidental advantages also. Under it the Chancellor of the Exchequer—"like Cerberus, two gentlemen at once"—as Finance Minister pays over large sums annually to the Chancellor of the Exchequer as National Debt Commissioner; and when he, as Finance Minister, for any purpose desires a loan, instead of having to realise Stock in the open market—a serious operation, and one that might injure his credit—he is able, on the security of Exchequer Bonds or Bills, to borrow from himself as National Debt Commissioner, on easy terms, the million or two he may require.

The whole process of these Government terminable annuities is purely a matter of book-keeping between two departments; * but is a convenient, because an automatic, process for annually redeeming an increasing amount of debt. There is no difference of course in principle between a terminable annuity of this sort and any other form of sinking fund; it depends like every sinking fund for its efficacy on the fact of whether there be a realised surplus or no at the end of the year. It may well be asked therefore, wherein is the advantage derived from this system of terminable annuities? what is the gain from this elaborate make-believe between two departments, from this roundabout system of cancelling stock? would it not be in many ways better, simpler and more economical, directly to apply that portion of the money which represents capital repayment to the annual purchase and cancellation of stock?

To this and to other objections entertained to the system of terminable annuities,† the solitary, but, as it seems to me,

* Thus, in the matter of these terminable annuities, it is a matter of indifference whether the price of stock falls or rises; whether the re-purchase of stock by the Savings Banks gives them a profit or results in a loss, the end is exactly the same. The liability of the State towards the depositors in the Savings Banks is in no way changed—it is liable to them for all its worldly goods. The practical extinction of debt will in the end be the same (except so far as the stock has had to be purchased at a higher price) whether a greater amount of debt be redeemed and a liability created on another account, or lesser amount of debt be redeemed and a credit appear on the other account. Neither party—for they are one and the same—will in the end be a penny the worse or a penny the better.

† Sir John Lubbock, in his *Essay on the National Debt*, gives four reasons for his objection to this—or indeed to any other—form of terminable annuities. "They must be continued during war, even if we are borrowing at higher rates; they tie up the hands of Parliament; they assume that the people have not resolution enough to look the debt boldly in the face; they diminish the moral effect of a reduction of the debt." *Addresses* (1879), p. 125. See *II. 206*, for his opinion in regard to the absolute necessity of rapidly reducing the debt.

sufficient reply is, that by this mode alone can any regular system of annual debt reduction be maintained.

For what is the melancholy history of all other forms of sinking fund? Pitt's system, under which a large fund was created to grow up side by side with the existing debt was encroached upon, mortgaged, and maintained by borrowing, and after prevailing for forty years was at last found out.* The system of sinking fund, under which a specific annual sum was voted for the redemption of a specified amount of the debt, was tried in 1857, but, with the full assent of Mr. Gladstone and of public opinion generally, was brought to an end by Mr. Disraeli in the following year.† The "new sinking fund" of 1875, under which the debt charge is placed at a fixed amount rather above the actual requirements of the year, the balance to form an annually enlarging fund for the discharge of the debt, has twice been suspended, and has failed to increase. The "old sinking fund" of 1829 (the application of the realised surplus to the direct redemption of debt), is admirable, but far less effective than it used to be in earlier days.‡ The enormous surpluses of the time of Mr. Gladstone's second Chancellorship, and of Mr. Lowe's term of office, are things of the past; a scientific estimate of the revenue of each year is now made, while the elasticity of revenue of former days can hardly be expected to recur.‖

It would no doubt be much better, the moral effect of the repayment of debt would be greater, it would be a healthier sign, if the nation would deliberately vote large specific annual sums towards the repayment of debt. But if

> "They won't, they won't,
> And there's an end on't."

---

* See *II. 209*, for history of Pitt's sinking fund.

† "I had the melancholy satisfaction of proposing to the House that the Sinking Fund should be terminated; and I think there never was a proposition which was agreed to with greater unanimity, because the House thought that to inflict upon the country new taxes at a moment when, like the present, there was considerable monetary disturbance and pressure—and that to the amount of £1,500,000—for the purpose of paying off debt, would be to involve ourselves in a ruinous and really silly proceeding; and I think that was the last effort which will ever be made to establish a Sinking Fund upon the old principle." Disraeli, Budget Speech, 1867.

‡ See *I. 15*, *221*, and *II. 215*.

‖ Northcote, in 1875 (April 15, Budget speech), said that since 1829, when casual surpluses were first applied to debt in the form of a sinking fund, by these means stock to the amount of about £40,000,000 had been cancelled; some £120,000,000 of debt had been redeemed by means of terminable annuities, "showing the superiority of the rival system of proceeding."

Nor is it always the people who refuse to vote such supplies, nor the "new recruits" who will not stand fire.

What alternative remains, therefore, but a system of terminable annuities? A system which, while other plans had been tried and had failed, had, up to a short time since, alone been left inviolate. No Chancellor of the Exchequer before the year 1885 had ever ventured to propose the suspension of the terminable annuities.* This inviolability, maintained by precedent and tradition, had given to the system of terminable annuities its chief force and its chief advantage. And it seems to me that, though unquestionably under this system, in times of pressure or of feeble finance, deficits occasionally occur, and the money to maintain the terminable annuities has practically to be borrowed, such times are fortunately now-a-days rare, and the extra cost entailed by such borrowing is worth incurring, if at other moments the debt is largely, regularly, and automatically reduced.

In 1885, as we shall see, under enormous pressure, a portion of the annuities were suspended for one year. In 1886, the suspension was not repeated; but in 1887, under no peculiar stress of circumstances, with an actual surplus in hand, the system of terminable annuities was deliberately invaded. The terminable annuities were reduced by £1,670,000 a year simply in order to remit a penny of income tax; and a precedent was created which, it is to be feared, will be only too readily followed by any future impecunious Chancellor of the Exchequer. If such a thing could be done in the green tree, what will be done in the dry? if such a thing could be done with a surplus in hand, what will be done when a deficiency arises? If such a thing could be done by the "canonised saint of financial purity," what can be expected of men of more mortal mould? And this sad conclusion at least must be drawn, that if a fund so sacred and so disguised as that of these terminable annuities is not safe, no other fund, voted in whatever form, hedged about by whatever precautions, can be safe, when it comes into competition with a question of the imposition of taxation, or even of its remission.

* Mr. Gladstone did indeed, in 1860, cast into the great gulf of expenditure the two millions of debt charge which expired in that year. But this was, though probably a somewhat mistaken policy, in no way a suspension of the system; these terminable annuities, as Mr. Disraeli said, died a natural death.

# CHAPTER XXI.

## THE CONSERVATIVES.

### 1866—68.

The first act of the new Chancellor of the Exchequer was to introduce (in July) supplementary estimates, to an amount of half a million, for only half of which, however, his Government were responsible. The cattle plague in England had involved increased expenditure on compensation and administration. Fenianism in Ireland and Canada had involved increased outlay on constabulary and military precautions. The authorities at the War Office had, for the last year or two, been pottering over the adoption of a breechloader, without being able to make up their minds on the question of pattern, when the "ten-days' campaign" came to wake them out of their lethargy; and, by demonstrating the striking superiority of the needle-gun, necessitated the immediate conversion of the muzzle-loading "Enfield" into the breech-loading "Snider." This double expenditure, positive and precautionary, had turned the estimated surplus of £286,000 that had been kept in hand into a deficit of about the same amount. Under these circumstances, the proposal for the redemption of the debt was wisely postponed until a more convenient season, and with the half million of revenue thus set free, a surplus was again created.

In introducing these supplementary estimates,* Mr. Disraeli took occasion to emphasize the opinions he had repeatedly expressed when in opposition, especially in 1862, as to the "necessity of a reduction, and of a considerable reduction, in our expenditure. . . It appeared to me," added Mr. Disraeli, "that the scale to which the expenditure had then attained was

* *H.*, July 23, 1866.

not consistent or compatible with the conditions of national prosperity." Admitting to the full that "the pledge then given by the Government, perhaps greatly due to the wise determination of my predecessor, was sincerely and completely carried into effect," he proceeded: "I wish to state that, in sitting on these benches, it is our intention in spirit and in truth to carry into effect that policy in respect to the expenditure which we recommended to the late Government when sitting on the benches opposite. . . One of England's principal sources of strength is her financial condition; her financial reserve is far more important than those military reserves of which we often hear such boastful accounts." But "to arm our soldiers well, and to have an efficient navy, is," added he, "compatible with a prudent and economical management of our finances." * He then repeated that which he had already more than once before asserted, and which he reiterated with such solemn effect in 1878, that, while among the Powers of Europe there were few who could enter upon a third campaign, of England it could be said that "if ever her honour be assailed, or her interests affected, her financial condition is such, that if she enters into a contest, she can pursue her inexorable purpose, whatever may be the number and duration of her campaigns, until her honour and rights are vindicated." †

Alas for the difference between theory and practice, between good resolutions and their practical application! In theory—that is to say, in opposition—Mr. Disraeli had always shown himself in favour of economy, and against "bloated armaments." Yet, when Chancellor of the Exchequer, and again in later years when Prime Minister, his colleagues expended much more than their predecessors not only on armaments, but on every branch of the service.

The Budget of 1867—Mr. Disraeli's fourth ‡—was presented by an overworked Chancellor of the Exchequer and Leader of the House; and the introductory speech was a somewhat per-

* By "economy," he went on to say, "he did not mean negligence, inefficiency, imperfection, but that prudence in the application of our resources which engages in nothing but what is necessary for the public welfare, and takes care to accomplish its purpose in the most complete manner."

† See *II. 239, n.*

‡ Budget speech, *H.*, April 4th, 1867. His previous Budgets had been those of April and of December, 1852, and that of 1858.

functory performance, in marked contrast to the brilliant and exhaustive orations to which the House had now for some years been accustomed. But Mr. Disraeli's *forte* was certainly not finance. His speeches in financial debates were indeed lucid and clever—a speech coming from him could not be otherwise—but he did not possess his rival's tender passion for detail, and loving appreciation of statistics. Mr. Gladstone was always more than ready to discuss a financial question from the financial point of view, and to bring to bear on any point his powerful battery of financial lore.

> "Whatever sceptic could enquire for,
> For every why he had a wherefore."

Mr. Disraeli seldom attempted to grapple with fiscal and financial details, preferring, if possible, to introduce and to discourse on home or general politics, or on some polemical topic. His financial speeches were as a rule magnificent—but they were not finance. In his Budget speech of 1867, however, sticking unusually close to his text, Mr. Disraeli came perilously near to being dull,* though the speech had at least the merit of being short.

The year 1866 itself had been singularly little disturbed either as to its expenditure or as to its revenue by all the untoward events of the time. The original estimate of expenditure had been put at £66,225,000 : the actual expenditure was £66,780,000, the first excess of ordinary expenditure over the estimate that had occurred for several years. The revenue, estimated at £67,000,000, had produced £69,434,000, an excess of nearly two millions and a half; the actual elasticity of the tax-revenue being nearly three millions and a quarter. The realized surplus on the year amounted to the goodly sum of £2,654,000. But this buoyancy of revenue, so marked during the last few years, was now again to be checked, and during the next year or two was overborne by the after-effects of the financial crisis,

* Lord Campbell once said of Disraeli, "when he gets among statistics he is dull and inconsequent" (*Life*, ii. 254). On the other hand, his Budget speech of 1852 was a brilliant performance, proving, in contradiction to the remark of the *Times*, when discussing his appointment, that he would find it difficult to be "both a wit and a Chancellor of the Exchequer," that Mr. Disraeli could be both. Lord Derby, at the Mansion House a few days after the speech, referred to it as "a speech which fully and amply refuted the unworthy notion that a man of wit and genius cannot grapple with the ordinary details of statistics."

by a bad harvest, and by increased expenditure, and did not revive until 1869 ushered in the period of leaps and bounds.

For the coming year—a year for which the new Government were wholly responsible—the expenditure was again to increase. The estimated debt charge was, through the final extinction of the "dead-weight" annuity, reduced to but twenty-six millions; but the ordinary "optional" expenditure, which in 1865 had amounted to thirty-nine millions, was now estimated at over forty-two. The total revenue was estimated at £69,340,000, the total expenditure at £68,134,000, leaving a surplus of £1,200,000. Most of this surplus was already, as we have seen, hypothecated to the debt; the debt operation, though involving on future years an additional debt charge of under half a million, threw on 1867 (in consequence of a change of time in paying the dividends) a burden of £750,000. Of the remaining surplus, £210,000 was to be devoted to the simplification and reduction of the Marine Insurance duty*—the Fire Insurance duty having been dealt with in the two previous years—and the balance of a quarter of a million was to be carried forward.

One of the chief proposals of Mr. Disraeli's abortive "compensation" Budget of fifteen years before had been to reduce the malt tax by one half. Naturally, therefore, the hopes of those who advocated the reduction of the malt tax had been raised by the accession to office of the "farmer's friends," and by the return of Mr. Disraeli to the Exchequer. But, on this occasion, the Chancellor of the Exchequer did not respond very cordially to the appeal; nor, with the small surplus at his disposal was he able, even if he had been willing, to deal with the question.†

In 1863 a complimentary letter, addressed to his Royal sister of England, had been received from the King of Abyssinia by the Queen. The letter was referred to the Foreign Office, and for

* The Marine Insurance duty—originally imposed as a percentage duty in 1795—was a graduated tax, varying from 3*d.* to 4*s.* per £100 of the value insured, according to the amount of the premium. The tax acted exactly in the wrong direction—the higher the premium the greater was the tax. But the amount of the premium per cent. denotes, not the value of the goods insured, but the risk, and the tax was therefore a graduated tax on risks. The duty was, moreover, a most complicated one, operating in restraint of trade, and leading to much evasion. All complication was now to be swept away; an uniform duty from 3*d.* per cent. for each policy was to be charged, with a further 3*d.* per cent. if the time policy exceeded six months.

† See *II. 27.*

sixteen months remained pigeon-holed in those halls of oblivion. The king waited for a year and a half, and not receiving an answer, became irate. When a sable potentate loses his temper somebody suffers; and, on this occasion, the English Consul and all the European subjects on whom his Majesty could lay hands, were seized as equivalents for the wasted postage of his letter, and forthwith put into prison. This was in 1864; and the next two or three years were passed in fruitless negotiations with Theodore for the release of the prisoners. In 1865 a Special Envoy was sent to the king, bearing presents and the long-expected reply from the Queen. But, after accepting the presents and reading the letter, the king added the Special Envoy to the other prisoners: although, as he entertained "a most remarkable personal attachment" for Mr. Rassam, he chained him by one leg only! The English Government, who were for a long time under the impression that it would be "a vain and idle endeavour to send an army across the deadly plain which separates Abyssinia from the sea, and to penetrate into the interior,"* continued their negotiations. And the king, like Pharoah of old, at one time agreed to let the people go, and again, a little later, like his prototype, changed his mind. However, British subjects, especially a Consul and a Special Envoy, could not be left for ever in the clutches even of the most inaccessible savage; and, in 1867, the Government were reluctantly forced to send an expedition to their release. The war was neither of their causing nor of their seeking; was certainly not undertaken with undue precipitancy, but only after all other alternatives had been exhausted.

To obtain the necessary supplies for the Expedition, an autumn session was held in 1867. The amount required, on the assumption that the war would last until the end of April, was estimated by the Government roughly, but with "no slight confidence" in its accuracy, at three millions and a half. India was, however, bearing the first cost, and it was not expected that more than two millions would be actually required within the current year. The Secretary to the Treasury, Mr. Ward Hunt, made the financial statement in the absence,

* Lord Clarendon when Foreign Secretary in 1866.

through illness, of the Chancellor of the Exchequer;* and stated that "the Government have no hesitation in saying that they do not propose to look beyond the resources of the year for meeting these £2,000,000 . . and think it is a more manly course to face the difficulties, and to provide this year for the extra expenditure which the expedition will entail during the year." In order to carry out this very laudable object an additional penny of income tax was imposed. There was still an available surplus of some £200,000; the extra penny would provide £1,450,000, leaving a deficiency of £350,000 on the war expenditure to be met within the year. Of the £1,450,000 of additional income tax, only £840,000 would actually be received within the year, the remaining £610,000 not coming to hand until 1869, and this and the deficiency of £350,000 were to be borrowed from the balances. Thus, as a matter of fact, instead of raising from the "resources of the year" the whole two millions, let alone the additional million and a half which it was thought that the war would cost, only £840,000 was actually to be received within the year, an additional £610,000 in the next year, while £350,000 was not provided for at all.

The Abyssinian war was successfully carried through, and happily, as far as England was concerned, was a bloodless campaign—bloodless, but very costly. It was expected that the expedition would be far more arduous, dangerous, and unhealthy than proved to be the case, and consequently greater preparations were made, and a larger force was sent out, than was actually necessary. The difficulties of penetrating into the interior had, it was found, been greatly exaggerated, and the country itself was not unhealthy. Communications with the base were easily kept up, and the "light claret and bottled beer,"—those essentials for a campaign, which Mr. Lowe had prophesied could never be carried over the mountains of Abyssinia—as well as the necessary artillery and supplies, were easily conveyed wherever required.†

* *H.*, Nov. 20, 1867.

† A large force of some 12,000 (mostly Indian) troops was conducted 400 miles into the interior, through an unknown and mountainous district. Forty-two elephants were employed,—the first time, it was said, that elephants had been used for military purposes of the same description since the days of Hannibal. As Mr. Disraeli—in moving the vote of thanks to the general and soldiers who had carried through "one of the most remarkable military enterprises of this country"—somewhat grandiloquently put it, "Perhaps the most remarkable part of the expe-

The Indian Government supplied the troops, and financed the war, their outlay being subsequently reimbursed by England.* It is needless to say, therefore, that though the military part of the expedition was very creditably accomplished, the financial part was marked by that extravagance, mismanagement, and miscalculation which seem inseparable from Indian finance. The original estimate of the cost of the war, as calculated in November, 1867, by the Indian Government, and accepted by the English Treasury, was three millions and a half, if the war lasted to the end of April. In April, 1868, the estimate was increased to five millions, on the supposition that the expedition would embark for home by the end of May. The time was nearly kept, but instead of five, the war cost eight millions and three quarters, and, after all possible allowance is made for the additional expenditure incurred in consequence of the slight extension of time, and on extra preparations and precautions, the miscalculation appears an extraordinary one, even for India. So outrageous was the difference between the original estimate, or even the second estimate, and the result, that the House of Commons appointed a select committee to inquire into the matter,† in order that such discrepancies should be avoided in the future—vain hope, as the Afghan war soon proved to our cost.

The total war expenditure which fell on 1867 was two millions; and the ordinary expenditure for the year was considerably greater than the estimate; the supplementary estimates had been balanced by no corresponding savings on other items. The total cost of the war services amounted, after adjustment,‡ to

dition was that the Commander-in-Chief led the elephants of Asia, bearing the rifles of Europe, over African passes, which might have startled the trapper, and appalled the hunter of the Alps." (*H.*, July 2nd, 1868.) The Abyssinian expedition accomplished its work very successfully. It captured the rock-bound capital and fortress, released the prisoners, and returned safely home without any more casualties than a few wounded men. The unfortunate Sovereign against whom we were warring died, it is said, by his own hand; but the loss of life on the side of the Abyssinians was not great, though the new "Snider" breechloader did some damage.

* The troops were to be furnished from India, the British Government bearing the cost of the extra pay and transport. This was the first occasion on which Indian troops had been used out of India since the Mutiny. They were again used in 1878 (brought to Malta), and in the Egyptian campaign of 1882, and in the Suakim portion of the Soudan campaigns of 1884 and 1885.

† Evidence and Report. *P. P.* 380 of 1869, and 401 of 1870.

‡ In these earlier years there were constant deficiencies on different heads of expenditure not ascertained until after the close of the financial year, and which had to be made good the following year. Thus, in 1867, a deficiency on 1866 to an amount of £140,000—on the army and navy—was met; but, on the other hand, a

£25,800,000, the highest point it had touched for five years, and higher by over two millions and a half than in 1865. The administrative expenditure including the cost of collection amounted to £13,270,000, which was higher by over £700,000 than in any previous year, and more by £1,370,000 than in 1865.* The total optional expenditure was the highest peace expenditure ever yet incurred, exceeding even that of 1861, and, by four millions, that of 1865. Thus disappeared at one fell swoop the laborious economies of the last few years. How far the Chancellor of the Exchequer was opposed to this increase of expenditure it is impossible to tell; but, in any case, the Admiralty and the War Office—well named the two great "spending" departments—forced his hand, and stultified his professions of economy.†

While the expenditure had grown, the revenue had lost its elasticity, a combination of circumstances which is only too apt to occur. High expenditure and increased taxation had acted adversely on a revenue already debilitated by another bad harvest,‡ by depression of trade, by strikes and lockouts, by monetary disturbances, by lack of confidence and enterprise, and by uneasiness on the Continent; to say nothing of the general feeling of insecurity caused by the existence of a Government in a minority. Instead, therefore, of the two or three millions of annual increase which the past few years had shown, the increase in 1867 was considerably under half a million; and the upshot of the year, with an expenditure of £71,236,000, and a revenue of £69,600,000, was a deficiency of £1,636,000.

deficiency of £770,000—army £400,000, navy £370,000—on 1867 was met in 1868; and again, in 1869, a sum of about £250,000—chiefly for Civil Service—was voted for deficiencies on the year 1868. In other words, to the expenditure as given in the *Finance Accounts* must be added for 1866 a sum of £140,000, to 1868 a sum of about £520,000, and from 1869 must be deducted nearly £200,000, for 1869 had a deficiency of £60,000 of its own. In the Budget tables given at the end of the book, these deficiencies, where they amount to a large sum, are separately distinguished in the years in which the money was provided. In the above figures, and throughout the book where comparisons are made between the expenditure of different years, these amounts are adjusted and placed to their proper years. See *II. 192.*

* Also after adjustment, see previous note.

† "July 21st, 1866. Disraeli made a speech on economy. Pakington showed the navy to be in a very low state, and wished to build six turret ships. . . . Disraeli would not believe this, and refused even £50,000 to begin the turret ships." (Malmesbury's *Memoirs*, ii. 362–3.) Lord Malmesbury was then a member of the Cabinet.

‡ Wheat in December, 1867, was quoted at 83*s.* a quarter.

The Budget of 1868 was introduced in April * by Mr. Ward Hunt, who had succeeded Mr. Disraeli at the Exchequer on the reconstruction of the Government, after the retirement of Lord Derby in February. The financial proposals were as simple as they were disagreeable. The financial statement was perhaps the dullest ever laid before Parliament: a wilderness of figures without an oasis. The Chancellor of the Exchequer did, indeed, apologise for producing such a very matter-of-fact and unambitious Budget. But fate, he complained, was adverse; extensive changes in the fiscal system would, under the circumstances of the time, have been out of place.

The tax revenue for 1868—with the income tax taken by the Chancellor of the Exchequer at 4*d.*, that is exclusive of the extra penny imposed in the previous autumn—was estimated at £63,220,000, an expected increase of £1,200,000, which was due almost entirely to the arrears of income tax, amounting to about a million, now to be received.† The ordinary expenditure was estimated at £70,430,000; the total revenue at £71,350,000, which left a nominal surplus of £920,000: nominal, because there was a large war expenditure still to be met. The total war expenditure was now estimated at some five millions, of which two millions had been already met in the past year—"met," however, for the most part by being taken from the balances, that is, practically adding it to the debt—and three millions more were still unprovided for. Adding the three millions to the seventy and a half, the total estimated expenditure amounted to 73½ millions. An actual deficiency of over two millions was thus left; to which had to be added the realized deficit of 1867, making in all some three millions and three quarters for which provision required to be made.

* Budget Speech, *H.*, April 23, 1868.

† An extraordinary miscalculation, somewhat like that of Peel in 1842, had occurred in regard to the income tax. As in 1859, the extra penny imposed in November, 1867, was to be levied for half the year at a double rate in order to bring as large a proportion as possible of the whole amount into the year. But, in 1859, the double tax had been placed on the first half of the year, and so was duly received within the year. In 1867, it had been placed on the latter half of the year only, with the result—a result which certainly might have been foreseen—that the larger portion of the tax was not received until after the close of the year.

It had been estimated that some £840,000 would be received within the year, and instead only £377,000 was so received, leaving £463,000 of arrears to be collected in 1868, in addition to the £610,000 originally expected.

This deficiency was met by what Mr. Gladstone once called the "simple but very rude process" of an addition to the income tax: a penny had been put on in 1867, another penny was now added. But, in the estimate of the revenue, the penny of the autumn of 1867 had been excluded, so that theoretically a twopenny tax was now imposed.* The twopence would produce, in all, £2,900,000, of which £1,800,000 would be received within the year, leaving £1,100,000 to be received in 1869. Thus the actual deficiency on the year itself would be reduced to £280,000; and, when the full amount of revenue had been received from the additional taxation, the accumulated deficiency would be reduced to about £800,000.†

In anticipation of the deferred portion of the receipts, and in order to provide the requisite funds, Exchequer bonds were to be issued. The plan of borrowing in anticipation of taxes was much in vogue in former days, and was often unavoidable when the system of collection was far less prompt than it is now. Borrowing on Exchequer bills dated from 1696, and constituted indeed the earliest form of debt, the Bank of England constantly "circulating" such bills on behalf of the Government;‡ but after a time, instead of their being met when they fell due, they were often funded, and the debt was thus permanently increased. Gradually the system of collection was improved, and a larger proportion of the taxation levied and due in the year came to be collected within the year, while the governmental necessity of borrowing was at the same time greatly reduced. For a considerable time previous to 1868 the custom and excise duties had been practically all collected in the financial year. The shortening of the malt and hop credits in 1859 and 1860 had brought a greater portion than before of those duties into the year in which they were really due; and, later, the commutation first of the hop duty and then of the malt tax into a beer duty, still further secured this object. Mr. Lowe's change in the system of collection of the income tax, of the assessed taxes,

* See *I. 263.*

† As follows:—Deficit, 1867–8, £1,636,000; estimated ditto, 1868–9, £2,078,000; total, £3,714,000. Twopence of income tax imposed, £2,900,000; deficit, £814,000.

‡ See *P. I. and E.* Return, ii. 512, &c.; Coxe's *Memoirs of Sir R. Walpole*, iii. 622, &c.

and of the land and inhabited house tax, did the same for these taxes in 1869.*

But, by 1868, this pitch of perfection had not yet been attained, and to issue Exchequer bonds or to borrow from the Exchequer balances, in anticipation of the outstanding arrears of taxation, was legitimate enough. Unfortunately, however, it has too often happened that the revenue in arrears, when it came actually to hand, instead of being applied to the redemption of the debt which had been temporarily created in anticipation of its receipt, has been diverted to satisfy some other claim, and the debt has remained unredeemed.†

Such was the case in 1868. Such had been the case in the previous year. In 1867 about £600,000 was taken from the balances to be repaid as the deferred revenue was received. In 1868, on the same principle, Mr. Ward Hunt proposed to issue a further million of bonds. He trusted on, and thought

> "... to-morrow would repay;
> To-morrow's falser than the former day."

Increased expenditure defeated the scheme. The loans taken from the balances, instead of being replaced, were increased; and by the time the bonds fell due, the revenue mortgaged to them had been already absorbed by other claims, and nothing remained wherewith to redeem them. So the bonds were renewed, and the balances still further depleted, being reduced to a point lower than they had reached for five-and-twenty years.

According to the original proposal, if all had gone well, of the five millions of war debt incurred in 1867 and 1868, some four and a quarter millions would have been met by the end of 1869, leaving about three quarters of a million to be covered by the natural increase in the revenue. This proposal was, indeed, not very brilliant, yet one which the circumstances of the time perhaps justified. But the war, instead of costing five, cost eventually some eight and a half millions. In March, 1869, a further vote of credit, in addition to the estimate of five millions, had to be taken to an amount of £3,600,000. The total esti-

* There are still, however, always some arrears of income tax collected after the close of the financial year.

† See Northcote, pp. 251-3, &c., in reference to the system of anticipatory borrowing in 1854.

mated war expenditure for the financial year 1868 was thus raised to £6,600,000, and the total war expenditure to £8,600,000. In consequence, however, of a delay in balancing the accounts between England and India, only some two millions of the third vote of credit actually fell on the financial year 1868, making the actual war expenditure in the year five millions, and leaving about a million and a half to be carried over to 1869.

"I think it cannot be said," Mr. Ward Hunt had declared, when introducing his Budget in 1868, "that we are throwing upon the future the burden of this expenditure." But in the two years 1867 and 1868 a deficiency of no less than four millions was accumulated, added to which there were estimated unmet liabilities to the extent of another million and a half.* Deducting from this total of 5½ millions, the million of taxation imposed, but not yet come to hand, there was still left, not a small deficiency that a year's increase of revenue could easily wipe off, but a very heavy burden on the future.

In the result the total expenditure for 1868 was, ordinary £70,000,000, extraordinary £5,000,000, or in all £75,000,000, with a further liability of £1,600,000, making the total liability of the year 76½ millions. The ordinary 'optional' expenditure showed an increase of nearly five millions over that of 1865, amounting to very nearly 43 millions.† From the fact that practically on every item and subhead of expenditure, there was progressive increase, while under the late Government there had been progressive diminution, it was pretty clear that the minute economy and the careful watchfulness of the last few years had come to an end.

The Ministry of 1866 had followed a stable Government, of which the members had for the most part retained their offices for

* Deficit, 1867, £1,640,000; ditto, 1868, £2,380,000; war expenditure (estimated) carried over, £1,600,000. Total deficiency, £5,600,000.

† Part of this increase was, however, due to a change in the system of account in regard to the Civil Service Estimates in 1868, by which the total was swelled by some half a million compared to previous years. Repayment to the Post Office on account of the charges of management of the Savings Banks (£50,000 a year), the receipts on behalf of the Packet Service from India and the Colonies (then about £230,000), were in future to be paid directly into the Miscellaneous revenue; and a considerable further extension was made in the system whereby Departmental fees and receipts were to be paid into the Exchequer instead of taking them in reduction of the estimates. Thus, apparently the Civil Service expenditure was considerably increased; but to a like extent the Miscellaneous revenue was correspondingly swelled. See *Appendix A.*

a considerable period. They themselves held their offices on a very insecure tenure, while the Parliamentary heads of the spending departments were constantly being shifted; and all this tended against economy. In those days, moreover, minute economy was not apparently very congenial to the Conservative mind; Mr. Disraeli alone of his party had preached, and none practised it. Not indeed that the Conservative party confessed to, or professed themselves in favour of extravagance. But somehow increased expenditure followed the footsteps of those who, a little later, did not hesitate to sneer at the "cheeseparing" economies of their opponents. And not only was ordinary economy temporarily in abeyance during those particular two or three years, but, as a matter of policy, the expenditure on the warlike services was deliberately increased. For this, much justification was to be found in the state of affairs abroad. There was uneasiness, and uneasiness is only another term for increased warlike expenditure. Rightly or wrongly, the incoming Government believed that, in regard to the defences of the country, the outgoing Government—a Government presided over by Lord Palmerston!—had "let down" the military and naval services below the safety point, and that it was necessary to expend large sums in order to bring them again into a state of efficiency. Recruiting had become more and more difficult, and desertion alarmingly frequent, and hence, in 1868, the pay of the soldiers had been increased by twopence a day.* The Army had been supplied with breechloaders.† It had been thought necessary to do something to initiate a system of Army Reserve—*à la Prusse*. A commencement had been made in arming Lord Palmerston's forts.

The usual wearisome accusations, denials, and disheartening debates took place over the "state of the navy." The new First Lord asserted that the navy was in a very bad state; and that the

* Which entailed an additional annual outlay of from £400,000 to £500,000.

† The breech-loading rifle was first brought into action by the Prussians in the Danish campaign of 1863. The needle-gun, though a clumsy and heavy weapon, at once proved its superiority over the muzzle-loader. But it was not until the rapid and complete rout of the muzzle-loading legions of Austria before the albeit imperfect needle-gun of Prussia, that it seemed essential at once to adopt a "breech-loader." A supply vote of a quarter of a million was taken in 1866, in order, as a make-shift, to convert the muzzle-loading "Enfield" into the breech-loading "Snider," while the War Office were deciding what form of rifle they should finally adopt.

naval power of England was deplorably weak as compared to those of France. The battle of Lissa had turned especial attention to the necessity of strengthening the ironclad fleet. "The time had arrived," said the First Lord, "when experiments should cease and action commence"—and action always means expenditure. New ships, of all patterns, sorts, and sizes, were to be built, and the "turret" system was to be given a trial. The Naval Reserve was to be placed on a sounder and more extended basis. And whether all this increased activity was a necessity, whether the extra expenditure it entailed was justified, certain it is that when they quitted office the Conservative Government left the Army and Navy in a higher state of efficiency than that in which they had found them.

To rely upon the imposition of the income tax, and the income tax alone, for additional revenue in the two years 1867 and 1868 was probably right. The revenue was a falling revenue, and the imposition of indirect taxation would have adversely affected it. Again, in each year, the money was required for a temporary and special emergency, and the taxation imposed could, it was hoped, soon be again remitted. The imposition of indirect taxation would have been disturbing to trade, and further disturbance would have been caused by its early remission; and thus it was better that the money required should be obtained by the imposition and subsequent remission of a tax that, neither in imposition nor in remission, would have similar injurious effects.

But this use of the income tax marked yet another new departure in the dealings with the tax. In 1859, it had indeed been raised for a special purpose, and without any equivalent imposition of indirect taxation.* Since then it had been again reduced, but its reduction had been coincident with reductions of indirect taxation. Now it was again raised without any addition being made to indirect taxation; while, when it came again to be reduced, its reduction was, as before, combined with that of taxation on articles of general consumption. The income tax when raised had been raised alone; its reduction went hand in

* See *I. 187.*

hand with reductions of indirect taxation. No wonder that, from this time forward, on any and every emergency successive Chancellors of the Exchequer turned, as Mr. Ward Hunt said "the most obtuse" among them could hardly fail to do, to the income tax, and put it up or down as poverty or plethora dictated.

Between 1866 and 1870, twopence was put on and twopence was taken off the income tax; while of indirect taxation there were remitted three millions. In 1871, the Budget proposals being defeated, and three millions being required, the whole burden was placed on the income tax payers. The twopence then imposed was indeed remitted the next year, but along with it went some £200,000 or £300,000 of indirect taxation. Two years of equivalent reductions on direct and indirect taxation followed; and by this time two more branches of indirect taxation had been finally lopped off. In 1876—as in 1867 and 1868—the income tax was again raised without any equivalent imposition of other taxation, and in 1877 the extra penny was maintained. In 1878, the tax was further raised by another twopence (bringing it up to fivepence), the increase being in this case combined with a slight addition to the tobacco duty. But the total additional burden placed on the income tax between 1875 and 1879 (inclusive) was about five millions and a half, and that on articles of consumption but half a million. In the next seven years, between 1880 and 1886, the tax was put up by a penny, then by twopence, reduced by twopence, increased by a penny, increased by a further twopence—bringing it up to 8*d.*—at which it was maintained in 1886. Lastly, in 1887, it was reduced by a penny, while the tobacco duty imposed in 1878 was also remitted. The upshot of the whole proceeding was, that in the twenty years between 1867 and 1887, while indirect taxation to an amount of about seven millions was remitted, the income tax was increased by threepence, producing some six millions a year.*

Thus has the income tax come to be considered in the light of a mere make-weight in the annual finance of the country, instead of as a tax to be preserved for fiscal reform, for war, or for some great

* In the same period there were also additions to the death duties, and considerable remissions of neutral taxation.

emergency. Against this use of the income tax there is much to be said; and the argument has been powerfully put by Sir Stafford Northcote. "If we maintain the income tax," said he, "as a permanent engine of taxation, we are tempted to spend whatever it is pleasant to spend, and to take off whatever it is pleasant to take off. The income tax is always at command, to be raised to 4*d.* or 6*d.* as occasion requires, and you have not that pressure put upon you to study economy that you would otherwise have. You may, in fact, go as far as you please in any direction which is pleasant, because you would always be able to get the matter right by shifting the income tax. By adopting this rule you have in the past been tolerably free in admitting new items of expenditure, and very liberal in striking off taxes. But the consequence has been that a number of sources of revenue have been brought down to a dangerously low ebb." * Against these objections it may, however, be urged with much force that the incidence of the burden of taxation has been thereby more fairly adjusted; that time after time the additional money required for the necessities of the year, has been raised with the minimum of disturbance to trade; and that, on the whole, the proceedings of 1867 and 1868 have been of considerable, if unforeseen, advantage to the country, by placing an ever greater burden on the income tax to the relief of taxation on articles of general consumption.

The purchase of the Telegraphs in 1868 requires notice. By 1868,† telegraph lines had been extended over the country. But the lines belonged to several different companies, and while, in the populous centres, the service was on the whole good, it was elsewhere but very partially developed, the delivery by no means rapid, and the rates heavy and variable. The charge ranged from 6*d.* the 20 words for local delivery within some of the large towns, to 1*s.* for a hundred miles, 1*s.* 6*d.* between one and two hundred miles, 2*s.* for two hundred miles, and to 4*s.* between Great Britain and Ireland; while the charge for porterage was heavy and capricious.

So successful had the business of the Post Office (as a Government department) proved, that, in 1868, the Government thought

* *H.*, April 28, 1873. † *H.*, April 1, 1868.

it would be advantageous to the country if they acquired and worked the telegraph service as well. In the spring of that year, therefore, they introduced a Bill to enable the Postmaster General to acquire and work the electric telegraphs of the United Kingdom. The question was referred to a Select Committee, who reported favourably on it. In April, the estimated cost had been put at £4,000,000; in July, when the Bill again came before the House, the estimated cost had risen to some £6,000,000, it being now proposed to buy "a much larger and much more valuable property than that originally contemplated." * The estimated profit was put at about £280,000 which, on a capital of £6,000,000, would give a good margin for the interest, and would provide an ample sinking fund, making the investment "not only prove safe but profitable." †

In 1869 the new Government introduced a Bill to provide the necessary funds in order to carry into effect the Act of the previous year.‡ The estimated cost had now risen to £7,000,000.‖ The estimated gross revenue was put at £673,840, the expenditure at £359,500, giving a profit of £314,340; sufficient to meet the interest (of £236,250) on the capital, and to leave an annual

* *H.*, July 21, 1868.

† The original proposal made by the telegraph companies was that they should receive twenty-five years' purchase on the net profits; against which the Government proposed to give the highest price that the shares had touched on the Stock Exchange up to May 25, 1868. After negotiation, the price proposed to be given was twenty years' purchase, ultimately reduced to about 17½ years' purchase, of the net profits. That the price given was an extravagant one is pretty clear from the fact that a very large rise took place in the price of the shares of the different companies that were bought up. The shares of the Electric Telegraph Company were at 132 in November, 1867, at 153 by January, 1868, by which time it was known that the Government proposed to purchase, and by July, 1868, had risen to 206, and by July, 1869, to 255. Those of the Magnetic Company rose from 115 in January, 1868, to 150 in July; those of the United Kingdom Company, £5 shares from 1½ in January, 1867, to 2¾ in January, 1868, and to 6½ by July, 1869. (See *H.*, July 26, 1869.)

Mr. Fawcett held a strong opinion on the point of the extravagant terms of the original purchase. Speaking officially as Postmaster-General, in 1882, he said that "owing to the carelessness of the Government of the day, at the time the arrangements were made for the purchase of the telegraphs, and the inattention of members of this House, the country paid a sum of £3,500,000 more for the rights and property of the telegraph companies than they were worth. . . . If the telegraphs had been bought at a proper price, the sum paid for them would have been £7,000,000 instead of £10,500,000." (*H.*, August 11, 1882.)

‡ *H.*, July 5, 1869.

‖ The amount to be paid to the companies on their claims was £5,715,000; to the railway companies, for rent or way leaves (est.) £700,000; for extensions and re-arrangements £300,000; to smaller companies to be bought out in consequence of the monopoly claims (est.) £35,000. Total £6,750,000.

surplus of £78,000 as a sinking fund.* The capital required was to be raised by the issue of stock.†

Since that time, the seven millions has grown into nearly eleven millions of capital outlay on the telegraphs.‡ The annual expenditure has rapidly expanded, while the revenue has by no means proportionately increased, and the result has been that while there was a small profit in the first year or two the business is now carried on at a considerable annual loss. In 1884, the year before the introduction of the sixpenny telegraphs, the gross receipts amounted to £1,784,000, the gross expenditure to £1,820,000, an actual excess of expenditure over receipts of £36,000.‖ To this deficiency must be added the interest on the capital, namely, £326,000 a year, or in all a deficiency for 1884 of £362,000. For 1885, the deficiency amounted to £371,000, and for 1886 to no less than £472,000.**

In no one single year, except in 1870 and 1871, has the interest on the capital been fully covered, and in those two years alone was there any balance at all available for the purposes of the sinking fund.†† The financial result of the whole transaction has been, that while the total gross receipts between 1870 and 1886 have amounted to £23,900,000, the gross expenditure has been £21,750,000, showing a total excess of receipts of £2,150,000. But against this, interest on the capital outlay to an amount of

* The estimated number of messages in the first year was 8,815,000. The Government would serve at once 3,776 places instead of the 1,182 served before. There would be a Telegraph Office to every 6,000 of the population instead of one to every 13,000 only.

† The original sum required was raised by the issue of £7,000,000 of stock at £92 4*s.*

‡ £10,880,000 by 1886.

‖ This is after taking into account not only the actual gross revenue and gross expenditure shown in the *Statistical Abstracts*, and given in the Budget Table to this book, but also all other incidental receipts and expenditure. On the one side, the extra receipts and sales, and the value of telegraph service performed for other departments without remuneration, in all (in 1884) £45,000; and, on the other, expenditure on behalf of the telegraph service by the Office of Works, Stationery Office and Exchequer and Audit Departments, &c., in all some £90,000, making the gross receipts and expenditure as above. See *P. P.* 73 of 1885.

** See *P. P.* 29 of 1887 and 31 of 1888. The expenditure of that which may be considered partly in the light of capital outlay on extensions, &c., met out of revenue, has risen of late years, in anticipation chiefly of the introduction of the sixpenny telegram. In 1880 this form of expenditure amounted to £129,000, in 1883 to £182,000, in 1884 to £315,000, and in 1885 to £215,000. (*P. P.* 344 of 1887, latest published return.)

†† In 1870 £47,425 and in 1871 £5,613 were so applied. (*P. P.* 33 of 1887.) The annual deficiency, after taking the interest into account, has varied between the £984 of 1880 and the £472,000 of 1886.

£5,120,000 has accrued in the same period, giving a total deficiency on the service since 1870 of no less than £3,000,000. And this £3,000,000 must be added to the capital outlay of £10,880,000 in order to discover the actual capital cost to the country of the Telegraph Service. On this enormous capital, under present auspices, not one sixpence of interest is being earned, but each year something further is added to the appalling deficiency.*

Nor is this wretched result due in any way to non-expansion of business. The telegraphic messages have risen from some ten millions in 1870, in which year a profit was realized, to twenty-eight millions in 1884, and to forty millions in 1886. The increased cost has been due very much no doubt to a great extension of unprofitable centres; to the employment of a vastly greater proportion of *employés* than had been originally estimated, and to increases of salary all round. But there must have been considerable mismanagement besides, at least in earlier days. In 1873, for instance, it was suddenly discovered, that a considerable amount of Post Office receipts and Savings Banks dividends which ought to have been paid into the Exchequer had been appropriated to the purpose of the extension of the telegraph system, instead of the required capital being voted in the regular course.† Moreover, time after time, deficiencies in the telegraph grants have had to be voted in subsequent years, proving that the supervision of the telegraph business department has been lax and inefficient.‡

* See *P. P.* 13 and 31 of 1888, and Annual Returns.

† Something like £800,000 was thus misapplied, and the telegraph capital was subsequently increased by £1,000,000 in order to meet this and other capital account charges. See *II. 153, n.*

‡ See especially Debate, *H.*, March 17, 1876, and Report of Select Committee of 1876 (*P. P.* 357 of 1879) Appendix to Appropriation Accounts, Report of Comptroller-General, 1874 and 1875 (*P. P.* 45 of 1876, and 53 of 1875), &c.

# CHAPTER XXII.

## THE LIBERALS.

### 1869.

In February, 1868, Lord Derby's health compelled him to resign office, and Mr. Disraeli became Prime Minister. The changes in the *personnel* of the Ministry were few. Lord Cairns took Lord Chelmsford's place on the Woolsack, and the Secretary to the Treasury, Mr. Ward Hunt, succeeded to the Chancellorship of the Exchequer.

At first, after their accession to office in June, 1866, the Conservative Government, though in a minority, had been able without difficulty to maintain their position. The Liberals were engaged—as Liberals so often are—in internecine strife: the Leaders would not lead, the followers would not follow. Lord Derby as Prime Minister had not been unpopular. His son, Lord Stanley, at the Foreign Office, was a distinct success.* Reform, in 1867, still hung in the balance, and no one had wished to displace the Government until the question was finally settled.

But by 1868 reform was an accomplished fact, for the Scotch and Irish Bills, though not yet passed, were consequential on the English Act. Foreign affairs were apparently in a much more peaceful condition. Lord Derby had given place to another;

* Lord Stanley (afterwards Lord Derby) had piloted England successfully through the troublous times of 1866 and 1867, and had carried out the principle which he had announced at King's Lynn, on accepting office as Foreign Secretary in 1866; when, speaking of foreign policy, he said, the "justification of a policy of abstention from warlike interference in continental disputes . . lies in the fact of the just conviction that we entertain that example is worth more than precept, and by simply existing as we do, a free, prosperous, self-governed nation, we are doing more than can be done by a thousand despatches, or even by many campaigns, to protest in practice against both a policy of despotism and a policy of revolution, and it lies also in our experience and recollections of past mistakes—in the lesson which our own history teaches—how often in our old days we have fought for objects that after all we did not secure, and which, if we had secured them, were not worth the price we paid."

and his successor, though all admired his courage and no one doubted his ability, was still looked upon with scarcely veiled dislike by many of his own party, and with undisguised mistrust by the hitherto friendly Whigs. Mr. Disraeli's declaration on his accession to office, that he intended to carry out a "truly Liberal policy,"* a phrase which, after the experience of 1867, might mean everything or might mean nothing, had not tended to allay the suspicion of which the new Prime Minister was the object. The moment had obviously come for the Liberal party to close their ranks, and to present a united front to the enemy.

The question of the disestablishment of the Irish Church had been rapidly coming to the fore. In 1867, there had been a prolonged discussion on the question in the House of Commons; while in the Lords, on the motion of Lord Russell, a commission had been appointed to inquire into the subject of the revenues of the Irish Church. At the beginning of the session of 1868, in a great debate on the whole Irish question, the Government had been forced themselves to acknowledge that reforms and changes in the constitution of the Irish Protestant Church were required, but they had declared that the question ought to be referred to the "reformed" Parliament. On the fourth night of the debate, Mr. Gladstone, in an emphatic speech, stated that, in his opinion, "the Irish Church, as a State Church, must cease to exist." The die was cast, the Government were doomed. On March 5, 1868, Mr. Disraeli had appeared for the first time as Prime Minister in the House of Commons. On March 20, Mr. Gladstone, as leader of a now united party, gave notice of a resolution with reference to the Irish Church. On April 3, the Government were left in a minority on the question.

But they were in no hurry to acknowledge defeat. Beaten by a large majority on their own amendment to Mr. Gladstone's motion that the House should resolve itself into Committee to consider the question of the Irish Church,† beaten by an almost

* *H.*, March 5, 1868.

† This amendment, moved by Lord Stanley, "while admitting that considerable modification in the temporalities of the United Church in Ireland may, after the pending enquiry, appear to be expedient," declared that "any proposal tending to the Disestablishment or Disendowment of that Church ought to be reserved for the decision of the new Parliament." (*H.*, March 30th, 1868.)

equally large majority on the motion for "going into Committee," they made no sign. A large adverse majority on the first resolution, "that it is necessary that the Church of Ireland should cease to exist as an Establishment," only elicited from the Prime Minister the significant remark "that the division had altered the relations of the Government to the *existing* House of Commons." It was soon known that the Government would not resign, but would insist on their right of dissolution. But an appeal to the newly enlarged electorate could not take place until the autumn, and so, the Ministry determined to carry on Her Majesty's Government, for six months longer, greatly to the chagrin of the Liberals, who desired at once to eject them from office.

The general election took place in November, was very hardly fought, and excited very great interest; an unprecedented number of contests took place, and the electoral campaign was extended over many months.* A considerable number of officials, ex-officials, and well-known politicans on both sides were defeated. Gladstone, Hartington, Milner Gibson, H. A. Bruce, and Frederick Peel, the late Tory Attorney and Solicitor General, with Roebuck, J. S. Mill, Bernal Osborne, and Horsman, lost their seats.†

The Liberals made a nominal gain, on the whole, of about 15 seats, equivalent to 30 votes on a division. But they really gained much more, for many of the less advanced members of the party either did not stand again or lost their seats. The new House, it was estimated, consisted of 387 Liberals, and 272 Conservatives, a Liberal majority of 115.‡ For the third time,

* "The toil undergone in the prosecution of this object, throughout an exceptionally hot summer and autumn, was very considerable; nor was the expenditure of money disproportionate to the time employed. Many, indeed, were deterred from engaging in contests which could not be carried on except at a heavy cost; and there were not a few constituencies to which none but men of considerable wealth could venture to present themselves. The money furnished by such candidates flowed freely for many weeks preceding the elections, and it is to be feared that the corruption, drunkenness, and demoralization, which are the invariable accompaniments of a general appeal to the electoral body, were not less prominent features of the present than of former contests." (*Annual Register*, 1868, p. 170.)

† Mr. Gladstone had been returned for Greenwich before the poll was taken in S. W. Lancashire, and Lord Hartington was soon after elected for the Radnorshire borough. Messrs. Milner Gibson, Mill, and Peel, never returned to the House of Commons.

‡ The majority on the Second Reading of the Irish Church Bill of 1869, was 118

a Conservative Government in a minority had unsuccessfully "appealed unto Cæsar."*

The opinion of the country was so clearly expressed by the elections, that Mr. Disraeli did not wait for the meeting of Parliament, but resigned at once,† thus leaving more time for his successors to prepare the schemes that they proposed to submit to the House. An excellent precedent,‡ followed in 1874 by Mr. Gladstone, and again, in 1880, by Lord Beaconsfield himself; though not by Lord Salisbury in 1885, and for this good reason could be alleged. Mr. Gladstone thus became for the first time Prime Minister, the head of a popular Government and a strong Party. Lord Clarendon was for a few months Foreign Secretary, and was succeeded after his death by Lord Granville; Mr. Bright was at the Board of Trade, while the Adullamite, Mr. Lowe, became Chancellor of the Exchequer.

No Government, with perhaps the exception of the Reform Ministry of forty years before, ever came into office on such a wave of popularity, or aroused greater expectations and greater hopes. No Government did more in the way of legislation, or more conscientiously tried to carry out the great reforms on which they had set their hearts and staked their existence. They economised, they reformed, they legislated. So active were they, that in some sessions, in contradiction to Mr. Bright's well-known

* The total number of votes polled, in 1868, was 2,292,000—Liberals, 1,400,000; Conservatives, 900,000. In many ways the General Election of 1885 was very similar to that of 1868. Both followed on a Reform Bill. Both contests were prolonged, and hard-fought. The number of contests was extraordinarily large; there was a considerable slaughter of well-known men; and the new members constituted nearly half the House. There was this similitude also, that, in both cases, the Clergy were especially active at the Elections. There was, however, this difference, while in 1868 the Liberals gained most in the boroughs and lost most in the Counties; in 1885 (on the again extended suffrage) they lost in the boroughs and gained in the Counties. The expenditure, legitimate or otherwise, in the election of 1885 was far less than that of 1868. The "returned expenses" of the election of 1885 were £1,026,000; those of 1868 (which, moreover, less nearly represented the truth) were £1,382,000. The chief difference between the results of the two elections was, that, while, in 1868, the Irish Party were not very numerous, and classed themselves as Liberals, in 1885 they constituted a distinct and compact body of 85 members.

† In December, 1868.

‡ Lord Ripon (Goderich), who succeeded Canning, in 1828, had indeed resigned before the meeting of Parliament. But the circumstances were wholly different. He was only in office a few months and had never met Parliament at all. The Whig Government in 1841, though known to be in a hopeless minority after the election of the year, met Parliament, and were immediately dismissed by a majority of over 90. The Conservative Government in 1852, and again in 1859, met Parliament; but in either case it was still an open question how far the Liberal party would be united against them.

saying, they almost succeeded in driving six omnibuses abreast through Temple Bar.

Their record was one of which any Government might well be proud. They dealt with the question of the Irish Church, and the question of Irish land. They passed an Education Act, an Act which has brought about a revolution, the most peaceful and the most beneficial of the century; they passed an Endowed Schools Act, and they abolished University "Tests." They introduced the Ballot, which tended immediately to greater freedom in the expression of opinion, and ultimately to greater purity of election; and they improved the law relating to Corrupt Practices at Municipal elections. They dealt, though not nearly as stringently as they themselves desired, with the Licensing question. They introduced and passed a Mines Regulation Act; partially abolished Imprisonment for Debt; and attempted to deal with the question of Bankruptcy. They gave greater freedom to the legitimate combination of working men by means of their Trades Unions. They created the Local Government Board with extended powers, in lieu of the Old Poor Law Board. They introduced competitive examination into every branch of the Civil Service, with the exception of the Foreign Office. They united into one Tribunal the Supreme Courts of Judicature. They abolished Purchase in the army; introduced short service and a system of reserve; and initiated many Army and Navy reforms. In finance, many improvements were accomplished. Lastly, they introduced halfpenny postage and the use of post-cards.

Some of their reforms were doubtless disappointing. Reforms are nearly always disappointing, both to those who look on them with dread and those who look on them with hope. They never produce all the good anticipated by their promoters, nor do they ever bring about all the evils prophesied by their opponents.

The Government encountered opposition, as all Governments must, and an amount of obstruction hitherto unprecedented. They underwent disappointment and defeat. They had accomplished not one half, nor one quarter, of the objects they had in view, before the Nemesis which tracks the path of every reforming Government overtook them also. In carrying through reforms and innovations, they lost popularity and they dissipated their

majority. They "blundered"—in the eyes of many. They "harassed" many interests—all reforms are harassing.* They "worried" some professions—all legislative interference is a worry. But to the best of their ability they pursued a policy which they believed to be for the true interests of the nation at large ; † and, on the whole, they succeeded in doing that which they had been put into office to do. They fell, not because, like so many of their predecessors, they had ignored or minimised their pledges, but because they had been too faithful to them; not because they had attempted too little, but because they had attempted too much.

Next to the obligation that lay on them to disestablish the Irish Church, was the pledge that they would reduce the public expenditure. During the existence of the late Government, the Liberal leaders had not ceased to protest against the increased expenditure as profligate and unnecessary, and to declare that they were the only party who could be trusted to economise,—Codling was to be the real economist, not Short. In the course of one of his first public speeches as Prime Minister, Mr. Gladstone had declared that he "knew no reason why three millions should have been added to our public expenditure ;" but, said he, "it was one thing to put on three millions, it was another thing to take them off. By putting on three millions, they created a number of offices, a number of new claims and of new expectations, and they could not, and they ought not, to destroy all these in a moment. Therefore, the work of retrenchment must be gradual!"—too true a saying, though the converse is also partly true. Expenditure leads to expenditure, but

* Mr. Bright on one occasion, in noticing the taunt that the Government introduced "harassing legislation," replied that without doubt if the Conservative party "had been in the Wilderness, they would have condemned the ten commandments as a harassing piece of legislation." (January 31st, 1874, at Birmingham.)

† "The Government," said Mr. Lowe at Sheffield in 1873, "when they took office came to the resolution that they would not be mere drawers of salary and distributors of patronage, but that if they remained in office they would make their tenure of power memorable in the history of the country. They took a survey of different political questions and they came to a resolution, the most daring perhaps that any set of middle-aged and elderly gentlemen had ever before arrived at. They determined that they would solve, if they were soluble by their means, and by aid of the majority which had brought them into power, the leading difficulties that beset the path of the politician ; that they would shrink from no difficulty, they would avoid no unpopularity or obloquy, but would grapple with and, if possible, surmount all the leading difficulties then seen on the political horizon." (September 4th.)

economy leads to economy, one retrenchment often making another possible.

The opportunity for retrenchment had now come, and right well, from the financial point of view, did the Liberal Government, at the beginning of its career, redeem its promises. Very considerable reductions of expenditure were immediately made. Then came varying fortune. Continental wars, precautionary expenditure, petty wars, and adverse arbitration, involved large outlay, while the first named had also the effect of increasing the ordinary expenditure on the war services. Army reforms, social reforms,—education, sanitation, inspection, and general increase of State interference—rapidly and automatically swelled the estimates. This form of outlay, which had been unknown in the good old days of Lord Palmerston, now entirely prevented such progressive decrease of expenditure as had been possible between 1862 to 1865.

Reduction of course does not always mean real economy, any more than increased expenditure always means increased efficiency,* and it remains an unsolved problem whether the "economies" of 1869—especially the economies on the Army and Navy—were wise or were foolish, or whether, as is most likely, they were partly wise and partly foolish. The question is to a large extent one for experts; but, it is to be feared, that —like so many other similar questions—it will be decided by the inquirer more on party grounds than on facts and figures. It had been contended by the late Government, on taking office, that their predecessors had so greatly neglected the Military and Naval necessities of the country, that it had become immediately necessary largely to increase the annual expenditure. They now contended that the reduction in the expenditure on the Army and Navy effected by their successors, was made possible by the very fact of their own large outlay in the two previous years; deductions can be more easily made, and with less serious consequences, when the services are in a high state of efficiency. They further declared that, they themselves, had they remained in office, would

* Mr. Disraeli truly said in the debate on the address in 1868, "the mere curtailment of expenditure, without reference to efficiency, is one of the unwisest courses it is possible to adopt, because the inevitable result is that it leads to a great reaction of profusion."

have been in a position to propose a reduction on the Navy, if not on the Army estimates.* The economists contended on the other hand, that all the credit of the reductions effected was theirs alone; and that these reductions were of such a nature, that efficiency was combined with economy. In a word, both sides contended that theirs was the only real "economy," theirs the only real "efficiency;" and who shall decide between them?

Anyhow, the sister services, both in regard to administration and in regard to policy, were thoroughly reorganized.

The whole system of administration of the War Office itself had been radically altered at the time of the Crimean War. The system under which the Army had been managed previous to the Crimean War was more intricate than workable. No less than five different authorities, all more or less independent of each other, had power over the regular forces; and the auxiliary forces were under a totally distinct department. There was the "Secretary of State for War and the Colonies" who had a "general but vague control." His powers in time of peace were very limited, but he had control of the politico-military operations in time of war. "The Secretary at War" was the Parliamentary representative, and was principally responsible for the Civil business and for the finance of the Army as regarded the personnel. "The Commissariat" was, and had been since 1809, under the Treasury, with the result that military transport was practically non-existent. "The Board of Ordnance" was practically independent, and was responsible for the manufacture and supply of ordnance, small arms and munitions of war for the Army, the Navy, and the fortifications; the Artillery and Engineers were under its control. The Commander-in-Chief had no personal powers of expenditure, and was responsible to the Secretary at War for financial matters; for everything else, patronage, discipline, instruction, promotion, proper equipment, clothing, &c., he was responsible to "the Sovereign" alone. The Militia and Yeomanry had been until 1852, when they were transferred to the control of the Secretary at War, under the authority of the Home Office! There were as

* The late First Lord (Mr. Corry) claimed that if he had stayed in office, he would have himself decreased the navy estimates as compared with those of the previous years, by £660,000, or within £350,000 of the net diminution made by his successor.

yet no Volunteers.* The pressure of modern warfare soon broke down this system of divided authority and responsibility. The Colonies were separated from the War Department; the "War Office" was created with a Secretary of State for War as its head, to whom all the powers and duties of the Secretary at War, of the Commissariat Department, of the Board of Ordnance, of the Medical and other sub-departments and of departmental audit were transferred. Additional responsibilities were conferred on the Commander-in-Chief, who had his seat at the Horse Guards.

Mr. Cardwell, on acceding to office in 1869, again altered the whole Army system; the supply, manufacturing, financial, and administrative departments were each in turn overhauled and reorganized, and the Army itself was placed on an altogether different basis. The military establishments and the distribution of their business were re-arranged, while at the same time the financial department was overhauled and a new system of control introduced. The work of the Secretary of State, both in Parliament as well as in his department, had so much increased, as to be literally "killing"—a fact to which the deaths of Sidney Herbert and George Lewis too sadly testified—and it was essential somewhat to relieve the Parliamentary Head, not indeed of ultimate, but of initial responsibility. Two new Parliamentary offices were therefore created, without, however, an increase of cost. The one, that of the "Surveyor General of Ordnance," to be responsible for the Store Supply and Ordnance Department; the other, the "Financial Secretary to the War Office," responsible for the Finance Department. The Horse Guards were amalgamated with the War Office; the administrative work of the War Office itself was re-arranged, simplified, and consolidated. It was fondly hoped that all these reforms would combine increased efficiency of administration with economy in working. But, unfortunately, most of them, though excellent in theory, have in practice, both in regard to financial control, and in regard to efficiency of supply, been attended with but scant success.†

* See Report of Royal Commission on Warlike Stores, 1887 (C. 5062, viii. ix. &c.). First Report of Royal Commission on Civil Establishments, 1887 (C. 5226, p. viii.). Lord Wolseley's article on the "Army" in *Reign of Queen Victoria*, i. 195, &c. *P. I. and E.* ii. 697, &c.

† Compare Report of Royal Commission on Warlike Stores (C. 5062, 1887); ditto

The policy of withdrawing the British troops from the self-governing Colonies—the military and naval stations being still, of course, garrisoned *—strongly recommended, in 1861, by a Committee on colonial military expenditure,† had been initiated some years before, and was now brought by Mr. Cardwell more rapidly into effect. The Colonies had attained full self-government; and it was thought that the time had come when the mother country might well keep clear of their internal affairs, and should no longer be expected to provide the whole of their defence, or to fight their petty wars. Their true defence, in time of serious war with a civilized power, would be, not the number of British troops permanently quartered in their midst, but the well understood fact that war with them would mean war with England. Hyder Ali long ago said, "It was not the English whom he saw, but the English whom he did not see, who alarmed him"; and the real safeguard for the Colonies was not the visible, but the invisible power of the Empire. Then England herself, being enabled to concentrate her troops, instead of keeping them scattered all over the world in small isolated detachments, would be placed in a stronger and better position, in case of war, to defend the Empire at large, and to strike an effective blow at the enemy. Moreover, it was hoped that the place of the redcoats would be taken by colonial Volunteers sufficient for defence, if not for defiance; and thus the military power both of England and the Colonies would be greatly increased. The duty thus placed on the Colonies has been well fulfilled; and the year 1885 found them, one and all, in such a position that they were willing and able to send armed help to the mother country. ‡

The military calls upon England, especially in New Zealand and at the Cape, had been perpetual, and not unnaturally so,

on Civil Establishments (C. 5226, 1887): Evidence before Committee on Army and Navy Estimates, Q. 1878–1890, 6582, 6872, 6955, &c., &c.

* Namely: Gibraltar, Malta, Bermuda, the Cape, Ceylon, Hong Kong, West Indies, St. Helena, &c.

† *P. P.* 423 of 1861.

‡ In order to facilitate the policy of withdrawal from Canada, where formerly, in consequence of her open frontier, a considerable number of troops had always been stationed, and where now Halifax alone was to be garrisoned by Imperial troops, the Imperial Government guaranteed a further loan of £1,100,000 for defences, handing over to the Dominion Government the works that they had undertaken a few years before in connection with the fortification of Quebec.

for to the Colonists a local war was usually a case of "heads I win, tails you lose." The mother country paid the piper, while the Colonists chose the tune, and as the latter also benefited commercially by the general excitement and the rise of prices, "little difficulties" were not unpopular with them. When, in the case of New Zealand, it had been first proposed to withdraw the British troops, great had been the outcry against the barbarity and heartlessness of leaving the unfortunate Colonists to the tender mercies of the Maoris. But, nevertheless, the number of British troops had from time to time been diminished; and in 1869 and in 1870 the Colonial Office, in spite of a smouldering native war, was firm enough to keep to the original intention, and finally to withdraw the troops. The result proved the wisdom of the step, for the Colonists, when they could no longer depend on Imperial help, were either able to hold their own, or, better still, to manage to live peaceably and on good terms with the natives. Unfortunately the immense black population in our South African Colonies, the contiguity of those Colonies to warlike native tribes, and their disinclination towards federation, have so far frustrated the policy of complete withdrawal from thence.*

The total number of troops recalled in the years 1869–71 amounted to some 26,000 men, reducing the number (exclusive of India) previously stationed abroad from 50,000 men in 1868 to about 24,000 in 1871. The net military expenditure on the Colonies was at the same time reduced from about £1,800,000 to about £675,000. In 1869, and the early part of 1870, the army was in all reduced by 20,000 men; yet, while there was a very considerable saving in expenditure, the total forces at home available for active service were greater than before by five or six thousand men—greater indeed than ever before since the Peace. In 1867 there had been 113,000 troops abroad, and 87,500 at home, or a total strength of 200,500 men, (including the troops in

* Even in 1886 there were no fewer than 3,500 regulars at the Cape and in Natal. Our two largest garrisons (excluding Egypt, where in 1886 there were 9,300 men, to be reduced in 1887, to 5,200) are those of Malta with 5,700 men, and Gibraltar with 4,860. The smallest "garrison" is that of St. Lucia, which consists of 2 men. (See Army Estimates, 1887, pp. 16, 17.)

In the Mediterranean stations in 1851 we had (including the Ionian Islands, then a dependency of England) 7,140 men; in 1861, 13,146. In 1886 (at Malta, Gibraltar, and Cyprus) 12,000.

India. In 1870, with the total strength reduced to 180,400, the numbers were respectively 90,700 and 89,700; and, by 1871, with the strength raised to 192,700, the numbers were: abroad 87,000, at home 105,700.*

The system of enlistment, and the organization of the army, together with its connection with the auxiliary forces, was radically changed. "Short service"—enlistment for twelve years instead of for twenty-one—was introduced as the rule and not as the exception. Moreover, the period of enlistment was in future to cover a very much shorter time spent as a soldier with the colours than heretofore, and was to include as well a period of service in the reserve, during which, though subject to an annual training and inspection, and with liability to be called out at need for active service, the soldier was to pass back into civilian life.

The necessity of creating an adequate and efficient reserve had been forced on the attention of the War Office at the time of the Crimean War; when the lack of any real reserve of trained men had compelled the gaps in the ranks immediately to be filled up by sending to the front young, untrained, unseasoned recruits, who were of little use in the field and who died like flies in camp. In 1858 the War Office made a leisurely attempt to supply the deficiency, and Sidney Herbert took power to create a reserve in addition to the existing "pensioner" reserve.† But enrolment in the reserve was not a necessary corollary to enlistment, and, by 1866, when the plan was suspended, the number had not reached more than four thousand men. But Herbert's Reserve sufficed for the War Office, until the striking success of the Prussian system of short service and reserves, in 1866, stirred them to take a lesson from the Germans in these matters, just as the proved superiority of the needle-gun forced them, in the matter of a breech-loading rifle, to translate experiment into action.

To General Peel, though he resigned office before his scheme was actually adopted, and though, in its results, it fell far below

* See table vii. p. 8, of Army General Annual Report, 1887, and *H.*, March 11, 1869.

† A "sort of decrepid make-belief reserve of enrolled pensioners," which dated from 1842. (See Wolseley, i. 174. Cf. Sir John Adye, *Fortnightly Review*, April, 1887.)

expectation, is due the credit of having initiated a system of a real reserve intended to supplement the Army, and liable to be called out for foreign service.* His scheme was to form, in addition to the old Pensioners' Reserve which was to be strengthened, a First Reserve of 50,000 men, liable to be called out for service abroad, divided into two classes, the first class to consist of 20,000 regulars who were willing to commute one-third of their enlistment with the colours for service in the Reserve, the second class to consist of 30,000 Militiamen. Peel's Reserve, as far as regards the regulars, was practically superseded by Cardwell's scheme, and the numbers have never been more than nominal; but the Militia Reserve has been very successful, and in 1878 was "called out," and satisfactorily responded to the call. It now numbers some 30,000 men.

In 1870 Mr. Cardwell carried the system a good deal further, and based his Army Reserve on the only ground which would ensure its stability, namely, "short service;" enlistment to cover, in every case, a period in the Reserve as well as a period with the colours.† Sidney Herbert's expectations as to the numerical strength of his Army Reserve had been sadly disappointed. The same fate awaited those of Peel; and, similarly, the calculations made by Cardwell were far too sanguine. He expected that, if all went well, the Reserve would in seven years, by 1878, number some 82,000 men, and by 1883, 172,000 men.‡ Some of the

* General Peel, in 1867, presented the Army estimates of that year, though he had already (in consequence of the Reform Bill) resigned the position of War Minister. Thus, by the courtesy of his colleagues, he was able to lay before the House the scheme of reserve which he had carefully elaborated, and which he had so much at heart. Pitt, in 1801, and Addington, in 1804, respectively brought forward their Budgets, after they had actually resigned, their successors not having yet been appointed. See *Life of Sidmouth*, ii. 282; Erskine May, i. 196.

† The system of short service and reserves was first brought into practice by the determination of the Prussian Government to evade the provisions of the Treaty of Tilsit, under which the numbers of their standing army had been restricted by Napoleon to 43,000 men.

In England since 1847 men could, if they chose, enlist for ten years instead of for life or twenty-one years; but short enlistment had not yet become popular. Under the scheme of 1870 men were to be enlisted for twelve years, of which (as originally proposed) the first three certainly, and possibly six, were to be spent with the colours, and the remaining six or nine in the reserve. The period, for the line, is now (since 1881) seven years with the colours and five in the reserve.

‡ In 1878 (January 1st) the First Class Army Reserve numbered 15,000 men and the Militia Reserve 26,000; together 41,000. In 1884 (the year ending January, 1883, was disturbed by war), the numbers were 34,600 and 29,600; a total of 64,200. In 1887, the numbers were 51,000 and 30,500, in all 81,500. (See Army Return, C. 5302, 1888.)

changes subsequently made no doubt adversely affected these calculations, but they were in any case over-sanguine. The re-enlistments were more numerous, the drain from the Reserve was greater than had been anticipated, while other circumstances tended to falsify the hopes originally entertained. But though the numbers have been thus deficient, the "ridiculous little force with a pompous appellation," as the "First Class Army Reserve of 1869" was designated by its detractors, has grown gradually to very respectable proportions, and it now numbers some 52,000 men,—"than whom no finer soldiers exist in the world," *—and the flow from the Army now averages some ten to eleven thousand men annually, and before long will have reached its maximum of 60,000 men.†

In connection with the system of short service and reserve was introduced a system of battalions, reduced in time of peace, but capable, in time of emergency, of immediate expansion to a war footing from the Reserve.‡

Under a system of short service it was essential to obtain a larger number, and a more regular supply, of recruits than formerly. In order therefore to encourage recruiting each regiment was given a local recruiting-ground. In order to place the system of reliefs from home to foreign stations on a more satisfactory basis (almost half the army is always abroad), and to render thoroughly available all the different branches of the service, regular and auxiliary, to weld them for the first time into one harmonious whole, a system of "localization" of the forces was introduced. The idea was to station the different regiments at different centres, permanently to localize them, and to amalgamate with them, for training, and for better co-operation in the event of mobilization, battalions of militia and volunteers, the whole forming a "territorial regiment." Two or more battalions

* Wolseley, *Reign of Queen Victoria*, i. 215.

† Army Returns, 1887, pp. 35 and 118; Sec. of State, Memo. 1887, p. 8; Army Estimates of 1886, &c.; Report of Inspector-General of Recruiting, 1887, p. 11.

‡ The term "Reserve," under the system introduced by Mr. Cardwell and since perfected, is somewhat of a misnomer. The reserve is not in the nature of a body of men intended simply to reinforce the regular army by forming additional battalions. The "reserve men" would not form a body apart, but would, when required, fall directly into the ranks of the regular army. The so-called "reserve" was, in fact, to be called out, not as a last resource, but as a first step towards mobilization. The Militia, the Pensioners, and the Volunteers, constitute the "Reserve," in the old sense of the term; as Mr. Cardwell graphically put it, "In time of peace the army is to feed the reserve, in time of war the reserve is to feed the army."

of the line were to be "linked together" at each centre, of which one would be always at home and the other abroad, the former to feed the latter by enlisting and training recruits.* In order to enable the fusion between the regular and auxiliary forces to take place, a revolutionary change was made in the constitution of the militia. Its local limitation had indeed become an anachronism, and had been gradually disappearing,† and now the last relic was swept away, by the removal of the force from under the authority of the Lord Lieutenants of counties and its transference to that of the Commander-in-Chief.

Short service combined with a system of reserves would, it was hoped, raise the tone of the Army, and, by making the service more popular,‡ facilitate recruiting; while the Army, at a less expense than before, would be kept up to a sufficient strength, and, at the same time, an efficient and ever increasing reserve of trained soldiers would be created. The recognition of the auxiliary forces as an effective branch of the national defences, would, it was expected, at but slight cost, considerably increase the military power of England. The anticipations of Mr. Cardwell have been very largely fulfilled. The Army reforms initiated

* The system of localization was carried a good deal further in 1881, and has now taken "very firm root." Local enlistment has very much increased of late years. In 1882, 24,300 of the recruits were born in the regimental districts, while by 1885 the number had risen to 46,000. There are indeed a few exceptions to its popularity, if we may judge by the solitary individual who assigned as his "reason for purchasing discharge" that he "was too long at the depôt, and wanted to be away from his friends." (See Report of Inspector-General of Recruiting, 1886, pp. 5 and 10, and compare Statement of Secretary of State, Feb. 1887, p. 9, &c.)

† The institution of a militia reserve, capable of being called out for foreign service, entirely subverted the old constitutional theory of the militia. It had before been raised merely for service at home, and now, to one third of its number, it was liable to service abroad. See *I. 101.*

‡ Before 1870 the number of men in the Army was always below, sometimes very far below, the "establishment," and the question of recruiting was becoming a very serious matter. All sorts of plans had been tried: life service and limited engagements, increased bounties and higher pay, reduced standard of height and breadth; and all without avail. Indeed so difficult had recruiting become, that in 1867 the Secretary of State declared that "the question now is whether the British Army should be allowed to collapse." In 1864 there had been a deficiency of 5,000 on the establishment, and in 1865 one of no less than 5,740 men; and, even in 1868, though the pay had again been increased, there were still 3,278, and in 1869 4,133, effectives "wanting to complete." Then short service was introduced, and between 1872 and 1883 the effectives were nearly always in excess of the establishment. In 1883 the position was reversed; but the deficiency was due to special causes. The numbers "wanting to complete" have since then very considerably diminished, and in 1886 they were reduced to 2,370, while for 1887 the Inspector-General of Recruiting stated in his Report that it would probably be necessary to check recruiting in order not to exceed the establishment. An anticipation that was confirmed (C. 5302, 1888).

by him, and further worked out and perfected by his successors, especially by his immediate successor, Mr. Gathorne-Hardy, and by Mr. Childers in 1881, have done much to strengthen the power of England, and to render available all the forces she has at command.*

The complete re-organisation of the Army was to be accompanied by a system of retirement calculated to cause a quicker flow of promotion in the service. Promotion, in the piping times of peace, had become very stagnant, and this stagnation would, it was felt, be still further aggravated both by the reduction which was to take place in the numbers of the Army, and by the abolition of the system of Purchase. Lack of time and opportunity prevented Mr. Cardwell from carrying out any matured scheme of Retirement.† To his successor, Mr. Gathorne-Hardy, was left the main part of the work, which can however scarcely as yet be said to have been completed.‡ The Retirement scheme of 1877 was partly voluntary, partly compulsory. Inducements were offered towards early voluntary retirement, and it was made compulsory, after a certain age, an age varying with the rank.

But the "welding," "localization" and "retirement" schemes could not be carried through without very considerable cost. In the first place, they necessitated the abolition of "Purchase"—the Army had to be bought back from its officers at an estimated cost of eight millions sterling.‖ The system of the purchase of commissions and promotion was in itself injurious, and had now the further disadvantage of being an absolute bar to the scheme of military re-organisation which it was desired to introduce. So long as an officer could

* Mr. Cardwell, together with his other reforms, abolished the system of "bounties," that is to say, a ready-money payment at the time of enlistment, without which it was formerly thought that recruits could not be obtained; but which had led to much desertion and fraudulent re-enlistment. The system of short service soon became so popular that far more recruits were obtained without, than before could be obtained with the bounty.

† He did, indeed, as a beginning, abolish a couple of minor commissions—that of cornet and ensign.

‡ A new army warrant, making considerable changes in the system of promotion and retirement, was promulgated as late as January, 1887.

‖ The system, as explained by the Royal Commission of 1857, was this, "When a vacancy occurs in the higher ranks of a regiment from the retirement of an officer by sale, every officer has a claim, according to seniority, to purchase the next rank in the regiment"—unless he is objected to by the Commander-in-Chief. "If no qualified officer in the regiment presents himself for purchase, an officer is brought in to fill the vacancy from some other regiment or from the half-pay list" (p. xxi.)

buy his steps,* and had a vested interest in his commission, it would be impossible to make the commissions in any degree interchangeable between the different branches of the Army and the Auxiliary forces, and it would be impossible to introduce a satisfactory system either of promotion or of retirement, especially of compulsory retirement. But, Purchase abolished, promotion would take place on the principle of seniority tempered by selection, instead of on that of money tempered by seniority.† The localisation scheme, in order to create the necessary "localisation centres," necessitated an outlay of 3½ millions on the erection of new, or the adaptation of old barracks.‡ In addition, the necessity now at last recognised for greater military efficiency and knowledge, involved considerable expense in connexion with camps of instruction, training schools, and manœuvres.

The money required for the abolition of Purchase was to be met year by year from the annual taxes, and was to be a charge on the Army Estimates. The money required for localization purposes, was to be raised by the creation of terminable annuities. Against the money spent on the abolition of Purchase, in all actually some six millions and a half,‖ there was no set-off. But against that spent on Barracks, &c., there would be a considerable set-off. Billet money and local charges would be saved, to the extent of about £70,000 a year, reducing the actual additional capital outlay by the State to some one and a quarter millions. The Retirement scheme was estimated to cost, when in full operation, some £320,000 a year, of which India would bear £110,000, and England £210,000.** The outlay on Army reform thus aggregated a very large sum, no doubt essential, but one which

* "When I read in the *Gazette* such announcements as, 'Lieutenant and Captain Grig, from the Bombardier Guards, to be Captain, vice Grizzle, who retires,' I know what becomes of the Peninsular Grizzle; I follow him in spirit to the humble country town, where he takes up his quarters, and occupies himself with the most desperate attempts to live like a gentleman, on the stipend of half a tailor's foreman; and I picture to myself little Grig rising from rank to rank, skipping from one regiment to another, with an increased grade in each, avoiding disagreeable foreign service, and ranking as a colonel at thirty;—all because he has money, and Lord Grigsby is his father, who had the same luck before him." (Thackeray, *Book of Snobs.*)

† The more correct formula, according to Lord Salisbury, would be "stagnation tempered by jobbery." (*H.*, July 17, 1871.)

‡ See *P. P.* 52 of 1884.

‖ See *Statistical Abstracts*, 1871—1880, and *P. P.* 190 of 1884.

** These are Mr. Gathorne-Hardy's figures. Apparently, to judge by the official returns of 1884 (*P. P.* 180), it has cost considerably more, and the cost is an increasing cost.

added not a man nor a gun to the service. The system of short service, moreover, practically involved the adoption of the plan of "deferred" good-conduct pay, which was instituted by Mr. Gathorne-Hardy in 1876, and which costs nearly half a million a year.* It was thought essential that the short service men should not be allowed to go back penniless into civilian life, to their own distress and to the discredit of the Army and the system. Deferred pay, therefore, equivalent to an increase of pay 2*d.* per day or about £3 a year, was given to the soldier in a lump sum on his discharge from the colours after his six or seven years service.† This system of deferred pay is now emphatically condemned, on the ground that the money is seldom used for the purpose for which it is given, but is usually squandered, often in a single drinking-bout.‡

The great administrative changes at the Admiralty date considerably further back than those of the War Office, and were inaugurated by Sir James Graham, First Lord of the Admiralty in the Ministry of Lord Grey, who, in 1831 and subsequent years, radically reformed the Naval Department, and not only reformed but economised as well.‖ As in the case of the pre-Crimean Army, the administrative responsibility of the Navy was divided. There were three great Departments—the Navy Board and the Victualling Board sitting at Somerset House, and the Admiralty sitting at Whitehall, and these Boards carried on their business very much as though they were independent bodies. The Admiralty Office had control over the appointments, pro-

* The total outlay on deferred pay was, for the whole British army, including India, for 1887, as much as £450,000. The charge has not yet reached its maximum.

† See evidence of Col. Duncan and Lt.-Gen. Fraser before Committee on Army and Navy Estimates, Fourth Report (*P. P.* 239 of 1887). They argue that the deferred pay in no way tends to attract recruits, who do not take it into account at the time of enlistment, and that the money could be much more profitably spent in improving the position of the soldier while with the colours.

‡ It has taken many years to carry the principle of "selection" up to the higher commands. By the army warrant of January, 1887, for the first time, "selection" was substituted for "seniority" as the means of attaining the command of a regiment.

‖ The expenditure on the Navy was reduced from £5,700,000 in 1831 to £4,000,000 in 1835. The Army expenditure was in the same period reduced from £8,690,000 to £7,560 000. (*P. P. and E.* ii. Budget tables.) Sir J. Graham lives chiefly, we fear, however, in the memory of men as the original "Grahamiser" of letters. A juster tribute has been paid him by Sir S. Northcote, who, in one of his lectures, speaks of Sir James Graham as "by far the ablest and greatest financial administrator within the last half century." (*Lectures and Essays* by Lord Iddesleigh, p. 283.)

motion, movement of ships, and general direction of the Naval policy; but, though responsible for the estimates and for the money voted, had really but little control over the expenditure. The Navy Board had charge of the dockyards, and was responsible for the buildings and repairs; the Victualling Board was responsible for provisioning the Navy. For the three independent Boards Graham substituted one Board, through the First Lord directly responsible to Parliament, with five sub-departments each under a "Superintending Lord." In addition, acting on the recommendation of a Treasury Commission which had sat a couple of years before, he introduced a system of simplicity and check in the accounts *—double entry and appropriation audit—a system which was gradually extended to the other departments; and, for the first time, Parliament obtained a real and constitutional control over the Navy expenditure, if not over the efficiency of the outlay.

Since Graham's time, though minor alterations had been frequent, no very sweeping changes had been made for nearly forty years. The reforming policy instituted in 1869 at the Admiralty was in many respects similar to that carried out at the War Office: the foreign squadrons were reduced, promotion was made more rapid, the system of administration was radically reformed. The policy of reduction in the foreign squadrons, was, like the Colonial policy of the War Office, not entirely a new departure; but, as in the case of the War Office, it was to be carried considerably further than had before been attempted. The fleets in

* Up to 1832 so loose had been the system of accounts, that sums voted for one purpose were often applied to another. Sir James Graham, when introducing his Bill of 1832, gave instances of the way in which money was applied without the consent or knowledge of Parliament. He quoted a case in which, between 1825 and 1830, a sum of £835,000 had been spent by the Admiralty on certain naval works and buildings, the whole amount which Parliament had voted for this special purpose being £270,000. But, in the same period, the Admiralty had expended on timber and materials £1,030,000 less than had been voted by Parliament, and out of this surplus the excess on the building and other votes had been met. In addition to the misappropriation of money to purposes not anticipated by Parliament, abuses and frauds had arisen from the divided responsibility and the consequent lack of control. Well might Graham remark that figures, generally introduced for the "elucidation of a subject," tended in the case of the Admiralty to entangle and confuse, so as to produce "one complete tissue of delusions."

See especially, for a history of these Admiralty reforms, Torrens' *Life of Graham*, vol. i., in which they are carefully detailed; Report and evidence of Select Committee on Admiralty of 1861. See also *Hansard* (naval debates) of 1832, 1833, &c.; *Enc. Brit.* "Admiralty;" Report of Treasury Commission of 1829 (*P. I. and E.* ii. p. 683, &c.); Report R. C. on Civil Establishments, 1887, xiv. xv. &c.

the Pacific, on the East Coast of America, on the Australian, East Indian, and Chinese Stations, at the Cape of Good Hope, and on the West Coast of Africa, which aggregated in 1868 some 80 ships, were, by 1870, reduced to 64. As in the case of the Army, the policy of concentration was a policy of strength, and thus, though the number of men voted for 1870 was considerably less than those voted for 1868, the manual power of the Navy was not on the whole weakened.* Promotion in the Navy, as in the Army, was very stagnant; and, moreover, in consequence of the great surplusage of Officers in the Service, a very small proportion of them obtained that continuous employment and training which is necessary for efficiency. It was essential, therefore, that a system of compulsory retirement for Officers should be introduced, whereby promotion would be stimulated and efficiency increased. The system of retirement introduced was on the same lines as that of the Army, a combination of inducement and compulsion.† The initial cost was put at some £50 to £60,000 for the first year; a sum which would gradually diminish until, in the fourth year, there would be a small saving, and it was expected that the saving would ultimately, by the end of the century, amount to some £300,000 a year.‡

But the chief Navy Reforms, and those which did most to bring the Government into some odium, were the administrative reforms carried out in the Admiralty itself, and especially those carried out in the Dockyards. It is perhaps hardly worth while to attempt to describe the Departmental changes made in 1869 or subsequently; for, while some of the "reforms" instituted, especially those in connection with the central offices, have been and still are effective, many others have apparently almost totally

* The Navy estimates benefited to the extent of two or three hundred thousand pounds by the reduction in the transport vote, resulting from the new policy of keeping a smaller number of troops in the Colonies. The reduction of expenditure on the Army re-acted on the Navy charge.

† According to the original proposal of 1869, admirals of the fleet were to retire at 70 years of age; admirals and vice-admirals at 65; rear-admirals at 60; captains at 55; commanders at 50; lieutenants at 45. At the same time arrangements were also made for diminishing the number of officers who could come in at the lower end of the scale. The effect of the changes was intended to be to reduce the number of subordinate officers of all ranks from 6,000 on full pay, and 1,190 on half pay, to some 5,500 in all.

‡ This very sanguine estimate, it is to be feared, was not fulfilled; the retirement scheme, as subsequently amended, instead of causing a saving, has probably involved a considerable outlay on non-effective service.

failed of their effect, and have been, or are about to be, superseded.* The Admiralty Offices at Whitehall and at Somerset House were amalgamated; Graham's Admiralty Board was superseded by a different system.† The establishments themselves were re-arranged, reduced, and simplified. The administration of the dockyards was throughly re-organised and reformed, and unity of management introduced. Sinecures were to be no longer tolerated; throughout the Admiralty, a system of direct and centralized control and responsibility was to be inaugurated. At the central offices, throughout the branches, and in the dockyards, in the building of ships and especially in the purchase of stores, business principles, to which the Admiralty had as yet apparently been a stranger, were to be introduced. Publicity and public tenders were to supersede the old system of private arrangements and private contracts.‡ The building of ships was to be placed on a more systematic footing than before. The production of a fixed yearly number of "Parliamentary tons" (as they are now called),‖ was to replace the haphazard system, so

* Compare Report and Evidence of the different committees and commissions which during the last few years have been enquiring into the administrative management of the Services. See *II. 321, n.*

† The First Lord of the Admiralty (Mr. Childers) stated, in debate in 1869, that the dual system of offices at Whitehall and Somerset House was most expensive and inefficient. For instance, he had found in a particular case that each Department was "preparing precisely the same books, precisely the same documents, in precisely the same form, and that neither Department knew that the other was so employed." See also Mr. Childers' evidence before the Royal Commission of 1871 (C. 507, 1871, ii. 499–522), in which he describes the great loss which arose from the old system of division of labour and duplicate offices. See also for all this, evidence before the Lords Select Committee of 1871, especially that of Mr. Lushington and Mr. Baxter, *P. P.* (30) of 1871.

‡ The Secretary to the Admiralty (Mr. Baxter), who was chiefly engaged in introducing the "business principles" into the purchase department of the Admiralty, stated that in many cases the supply of stores was ridiculously excessive, the stock on hand being sometimes sufficient for an infinite number of years' consumption, and consisting often of articles which deteriorated greatly in the keeping. Under the old system, contracts were, it appeared, a mere farce, and business was being done with many firms who "were simply not respectable," while a considerable amount of corruption occurred, and contracts were often greatly influenced by a system of "tipping" which largely prevailed. Compare the analysis of Reports of committees and commissions of later years.

‖ The annual production was fixed at 20,000 tons in all, of which 12,000 were to be armoured, and 8,000 unarmoured; 16,000 tons were to be built in the dockyards, and 4,000 by contract. As a matter of fact, the proposed number of tons have been rarely or never produced in any one year. The present First Lord of the Admiralty (Lord G. Hamilton, 1888) proposes in another way to bring about the same result of regular and uniform production. He estimates that the minimum sum required for building and repairs, in order to maintain our fleet at its existing strength, is £1,800,000 a year, and this sum he proposes the Admiralty shall every year lay out in this manner. See his Statement of 1887, C. 4490.

long in vogue, of over-building one year and under-building the next, of employing thousands of men one year and turning them off the next, a system detrimental to the Service, and entailing much hardship on the men.

It is abundantly clear that at this time considerable administrative reforms were urgently needed in both Services, and that the Government were well advised in the courageous attempt they made to improve the existing state of things. But unfortunately, while administrative reforms are being carried out, and during the period of actual transition from a state of relaxed to a state of active vigilance, from a period of large expenditure to a period of economy, some individuals must suffer, and many will think themselves aggrieved. And one of the worst results of increased expenditure is that it creates new interests, which, when economy again sets in, it is difficult or costly to extinguish. It is possible that the system of re-arrangement of offices was carried in some ways too far. It is probable that the "painful task" of reducing the establishments was pushed through with scarcely enough consideration for natural feelings and vested interests. It is probable that, in some particulars, economy was allowed to eat into efficiency; and that the rage for publicity and for strict attention to business was somewhat overdone. It is certain that charges of corruption were flung about somewhat too promiscuously; indeed the Admiralty Reformers seemed to take a pride and pleasure in their unpopularity. In fine, it is not unlikely that the new brooms swept somewhat too clean.

However, be this as it may, whether the fault lay with the Administrators, or with those affected by the reforms, or with both, these re-organizations, reductions, and retirements, raised a hornet's nest about the ears of the Government. Many worthy people seemed to think that every public servant possessed a vested interest in his particular office. The reductions in the Dockyards caused considerable distress among the labourers, and though largely due to the policy of their predecessors,* it was

* See the figures quoted by Mr. Gladstone in a speech at Woolwich (Feb. 1, 1874), and confirmed by a letter of Mr. Childers to the *Times* (Feb. 7, 1874), and by the figures given in debate and in answer to questions in Parliament in 1871. On January 1st, 1868 (when his predecessors were in office) there were, he stated,

loudly attributed to the over-economical tendencies of the Liberals. The Government, however, in spite of misrepresentation, obloquy, and unpopularity, did not recede from the position which they had taken up; declining, as Mr. Gladstone expressed it, "to retain useless offices merely because their abolition might injuriously affect individuals." And certainly it is the duty of any Government, as trustees of the national money, when election has to be made, as it sometimes must, between interfering with the prospects of certain individuals and maintaining undue burdens on the community, to do their best to reduce useless offices, and to economise in every department.*

But not only were the "vested interests," and those whose profits were curtailed, up in arms against the reforms; but many of those who had the interests of the Navy alone at heart, were also disturbed in their minds and fearful of the consequences of all this topsy-turvydom; thinking, and at first with some truth, that the re-organization of the Admiralty had led, not to better control, but to disorganization and confusion. Many really believed that the Navy, with these new-fangled notions, would no longer brave the battle and the breeze, but would go incontinently to the dogs. Rumours of all sorts, which, as Mr. Disraeli once said, so often get afloat in a free country like England, were current. The introduction of "business principles," it was said, had resulted in the sale of valuable stores and seasoned material, which could not be easily replaced; in the purchase of anchors which would not catch, and of cables which would not hold; in the use of cheap and smoky coal which would advertise the presence of the British war-ships to every enemy, themselves invisible.†

20,313 dockyard labourers employed; by December 1st, 1868, the day on which his Government assumed office, the number had been reduced to 15,954; this number they further reduced to 14,511; the "Conservative" reduction being thus 4,359, the "Liberal" reduction only 1,443 men.

* The Select Committee of 1828, on Public Income and Expenditure, in speaking of the administrative reforms they would have to propose, and the retrenchments that ought to be effected, said that "they were sensible of the ungracious nature of the business in which they were embarked, that all parsimony is of a quality approaching to unkindness, and that every economical reform must operate in some quarters with severity." (Second Report, p. 4.)

† Against all these alarmist contentions, it is best just to quote the remarks of the Conservative Secretary to the Admiralty, who, soon after acceding to office, frankly stated that "he could confirm the remarks which had been made in regard to the satisfactory condition of the Stores Department, and had great pleasure in bearing testimony to the salutary reforms which Mr. Baxter had been instrumental in effecting in the Department." (*H.*, May 18, 1874.) At the time of Graham's

Numerous mares' nests were of course discovered; * but many of the less ridiculous stories had a substantial basis of fact. Mistakes occurred, misfortunes accumulated. There were founderings, wrecks and collisions, disasters that were rightly or wrongly attributed to the misdirected and wasteful economy of the Admiralty, which had grudged or refused the last ha'porth of tar.

Many substantial economies were unquestionably effected in the Naval administration at this time; but it may well be argued—and I for one believe—that the expenditure on the Navy during the early seventies was reduced to a dangerously low level. The ordinary Naval expenditure from 1869 to 1872 averaged between $9\frac{1}{2}$ and $9\frac{3}{4}$ millions; between 1858 and 1869 it had never fallen below $10\frac{1}{4}$ (in 1865) and had been as high as $12\frac{1}{4}$ millions (in 1861), and in 1868 it stood at 11 millions. Thus a very considerable reduction of expenditure was made; yet, the cost due to greater complexity of work and the increased price of the actual materials themselves, was steadily increasing the outlay on each individual ship.

The Army reforms certainly neither began nor ended in diminished expenditure. The expense, so the nation were told, "would be of a transitory character, while the economy would be permanent." But experience soon showed that in Army reorganization, as in most administrative reforms, it is by no means only the first step which costs. Before the "cheap" stage has arrived, the reform has been superseded by another of its kind. And while, perhaps, the original reform is causing diminution of expenditure on one head, the initial cost of some fresh reform more than swallows up the saving on another. The immediate large diminution of expenditure which did take place on the Army in 1869 was almost entirely due to the large reduction then made in the number of men; a diminution that was but short-lived, the state of Europe soon necessitating the augmentation of the forces to their old level.

Admiralty reforms in 1831–3, it was specifically stated by the Opposition that the dockyards under his economical management had been "swept clear of timber, cordage, sails and stores of all kinds;" but he was able to show that, on the contrary, the stores in hand were actually greater than in the time of his predecessor. See Torrens' *Life of Sir J. Graham*, i. 439–40.

* The captain and crew of one ship, it was said (and believed) never appeared on the deck of their ironclad without their cork jackets "in case of eventualities!"

# CHAPTER XXIII.

LOWE—PROSPERITY.

1869—70.

The first Budget of the new Parliament, and of the new Administration, was introduced by the new Chancellor of the Exchequer, in April, 1869.* Why Mr. Lowe had been placed at the Treasury no one at the time quite knew. He was not supposed to possess any especial aptitude for figures, and his defective eyesight involved, as he said himself in his opening statement, "certain difficulties and disqualifications peculiar to himself," which made the discharge of his duties considerably more onerous than they otherwise would have been. Maybe it was thought that the profound and complicated calculations, and the care for economy, on which, some eight years before, his "revised" Education Code had been based, constituted him a sufficient financial authority and a fitting guardian of the public purse.† Mr. Lowe's Budget speeches were not of course eloquent with the eloquence of his great leader, but they showed considerable mastery of the subject; they were lucid and well expressed, and they had about them a certain flavour of caustic and pungent humour which made them not unentertaining.‡

* Budget Speech, *H.*, April 8th, 1869.

† "I cannot promise the House that this system will be an economical one, and I cannot promise that it will be an efficient one, but I can promise that it shall be either one or the other. If it is not cheap it shall be efficient; if it is not efficient it shall be cheap." (Mr. Lowe, *H.*, Feb. 13, 1862.)

‡ In spite of his defective eyesight, his statements always bristled with figures cleverly grouped and accurately given, which must have been mostly committed to memory. I remember being told by a member, who sat just behind him on one important occasion, that the leading features of his budget were, to use my friend's expression, "huddled down" on the back of an old menu card.

One serious drawback to the lucidity of his two most important budgets, those of 1869 and 1870, was that—perhaps in order to avoid giving more figures than he could avoid—he nowhere summed up in detail the effects of the complicated changes

The times on which he had fallen certainly did not appear propitious; no element of difficulty and embarrassment was wanting. The original estimates, both of expenditure and of revenue, for 1868, had been completely and unpleasantly falsified. On the ordinary expenditure there had been indeed a considerable saving, but the war expenditure, instead of amounting to but three millions, had reached over six and a half during the year; while the revenue receipts had been most disappointing. The original estimate of expenditure had been nearly 73½ millions, which had been increased to 77 millions by the supplementary estimates of March, 1869. The actual expenditure had been 75 millions; £1,600,000 of war expenditure was to be carried over to 1869. The revenue of 1868 had amounted to £72,600,000, leaving a deficit of £2,400,000, a total deficiency, including the liabilities carried forward, of no less than £4,000,000.

The ordinary expenditure of 1868 had originally been put at £70,430,000; the actual ordinary expenditure had been less than seventy millions, and this included a charge of about three quarters of a million, due in 1867 but paid in 1868.* There had, therefore, been a real saving of about a million and a quarter on the original estimate.† The economy thus effected had been accomplished more by the exertions of the incoming than of the outgoing Government. The late Government had, indeed, just before the general election, made an attempt to economise, but in somewhat of a curious fashion, as transpired from subsequent ex-ministerial confessions. It appeared, that in consequence of the falling revenue, the Cabinet, just before the dissolution in October, had been called together to consider the financial position. In order to escape a deficiency, the Cabinet decided that the expenditure should be reduced as much as possible.‡ The mode in which

of taxation which he proposed, adding thereby most seriously to the difficulty of accurately measuring the results actually expected by him.

* See *II. 40, n.*

† Against this must be put the deficiency of £218,000 voted in 1869.

‡ "When the first quarter's revenue was made up last year, after discussing matters with the heads of the departments, I felt perfectly sure we should not realize the Budget estimates, and I wrote in the strongest manner to the heads of departments urging them to use every exertion to keep down the expenditure. At the end of the second quarter, when the first part of the year had expired, I thought the time had come when we might form an opinion as to what the difference from the original estimate would be. Accordingly, in the month of October, I went through the revenue of the country, and arrived at very nearly the

this reduction had been effected in the case of the Navy estimates was, in a burst of confidence, explained to the House by the late First Lord.* He had simply held over, until 1869, certain payments—not liabilities but merely payments—of contract money to the extent of some £200,000, practically due in 1868; a transaction clearly inconsistent with Parliamentary control over expenditure. In other departments a similar "economy" was effected. Economy, if mere postponement of payment can be called economy, was, it seemed clear, instituted, not for its own sake, but merely to meet momentary party exigencies. The policy of postponing payments was reversed by the incoming Government, yet they, by real economy, were able at the end of the year to show a saving on the whole expenditure.

The income of 1868 had been very deficient. "The revenue," as Mr. Lowe graphically put it in his Budget speech of 1869, when commenting on the past and looking forward to the coming year, "shows not the slightest symptom of elasticity. Indeed it is much more like the flaxen thread which the spinner draws out, than the band which rushes back to the place from which it has been dragged." And the worst feature of the situation was that for two years the custom and excise revenue had suffered most on those articles which are chiefly consumed by the working classes—British spirits and Colonial rum, tea, sugar and tobacco —while those chiefly consumed by the better-to-do classes—wine and brandy—showed increases. It was clear, therefore, that

particulars which the right hon. gentleman has stated have been the actual results. I ascertained the revenue of the country was likely to be £500,000 less than I had estimated in April, and I thereupon called my colleagues together and put the matter before them. A decision was in consequence arrived at, that the expenditure should be reduced as much as possible . . . . . and it was agreed by the late Board of Admiralty that certain payments were to be postponed. When the change of Government took place, that decision was reversed, and the payments were made in the last financial year. Of course it may be said that postponing payment is merely putting off the evil day." (Mr. Ward Hunt, late Chancellor of the Exchequer, *H.*, April 8, 1869.)

* "During the course of the autumn, the revenue returns were so unsatisfactory, that the late Chancellor of the Exchequer called a cabinet council, at which it was decided that, in order to avoid the risk of a deficiency, the heads of the great spending departments should endeavour to make the largest possible saving upon their respective votes. I thereupon consulted the chief constructor in the navy, and the result was that I was able to undertake, that by withholding the payment of part instalments at the end of the financial year, which it was customary to make but to which the contractors had no legal claim, £190,000 of the contract vote should remain unexpended. . . . . It is a mere question of adjustment—that is, whether payments should be made on or before the 31st of March, or not till on or before the 1st of April." (Mr. Corry, *H.*, March 8, 1869.)

employment and wages had been seriously affected by, and had not yet recovered from, the commercial, financial, and continental disturbances of '66 and '67. The stamp revenue had also shown a considerable falling off, mostly due, however, to "sheer ill luck"; "for though," said Mr. Lowe, "Death has been busier than usual, he has avoided striking at those whose death would enrich the revenue. But these things," he contentedly added, "compensate themselves in cycles." The "good luck" which throughout followed the new Chancellor of the Exchequer in regard to his revenue receipts, did not, in this instance either, desert him, and many wealthy testators, who had escaped the mild winter of 1868, fell victims to the colder season of 1869, thus compensating the Chancellor of the Exchequer for their disappointing vitality of the year before.

For 1869 the estimated ordinary expenditure amounted to £68,220,000, against an actual expenditure (excluding the deficiencies of 1867) of the year before of £69,200,000, an estimated diminution of a million. The debt charge would vary but little; the outlay on "business," and on the collection of revenue, would be the same as in 1868. The Civil Service estimates showed an increase of nearly a million over the actual expenditure of the year before, some £200,000 of which increase was, however, merely due to a change, a satisfactory change, of accounts, and did not imply an actual increase of expenditure.* Some of the increase was due to what the Chancellor of the Exchequer called the "spontaneous growth of charges over which we have no control," that which, on another occasion, he called "automatic increases,"—education, superannuation, reformatories, police, and the like. In respect to these items the Government, he declared, "stood excused from any charge of wilful extravagance, because"—a somewhat fatal argument for an economist, and one too frequently utilised by his successors in after years—"it is

* The cost of the Diplomatic Service was transferred from the Consolidated Fund, over the items of which the House has no detailed control, to the Civil Service estimates, over which they have a nominal control. The salaries and expenses of the House of Lords, which had hitherto been met by fees, were now transferred to the votes, the receipts being paid into the miscellaneous revenue. Thus was brought under public notice, the considerable inequalities in the salaries of the two Houses which had previously escaped observation—not that the observation has as yet done much to remedy the inequality.

quite possible for an estimate to grow to an inordinate size without the Government having the slightest power to check it." *

The saving of expenditure to be effected was on the sister services—an economy chiefly due to the "heroic" exertions of Mr. Cardwell at the War Office, and Mr. Childers at the Admiralty, who, as Mr. Lowe said, "had conferred an obligation on the country which it was difficult fully to appreciate." Comparing estimates with estimates—as most of the reduction of expenditure effected in 1868 was due to the present Government—those of the army for 1869 amounted to £13,500,000 against £14,600,000 of the year before; the navy estimates to £10,000,000 † against £11,000,000. A very substantial saving was to be made on the war services; and economy showed itself, not only in the estimates, but still more in the actual expenditure.

The estimate of the revenue was a most cautious one. "Things are very bad," said the Chancellor of the Exchequer; "and we have not allowed ourselves to entertain hopes of any sudden changes for the better." The income tax was taken at the full sixpence, that is, the continuation of the twopence practically imposed in 1868 was assumed. The total revenue was put at £72,850,000, the ordinary expenditure at £68,220,000, leaving a surplus, on the ordinary expenditure, of some £4,630,000,—a paper surplus merely, for there was still an outstanding war debt, not yet liquidated, of about £4,600,000. Putting the surplus of £4,680,000 against the war debt of £4,600,000, the total estimated revenue and expenditure almost exactly balanced.‡

The Budget was seemingly ready made to hand,—a twopenny income tax imposed, the war liabilities met, and a minute surplus remaining. But it was out of the question for the new Government—a Government from which financially so much was expected—to sit down and rest, still less to be thankful, with a budget so unenterprising, and with a surplus so microscopic. Further proposals were therefore made; and it was these which

* Cf. Memo. of the Secretary to the Treasury, 1888. *P. P.* 82, p. 3.

† The amount of the Navy estimates, namely, £9,997,000, looked, as Mr. Corry remarked, as though the Chancellor of the Exchequer, in his anxiety for good Budget figures, had said to the First Lord, "You may have as many 9's as you like in the estimate, but on no account must you begin with the figure ten."

‡ The Chancellor of the Exchequer calculated the matter in a somewhat different way. See note to Budget table of 1869.

rendered the year 1869 financially memorable. The scheme was this :—First, to alter the time and mode of collecting the income tax. Instead of collecting the tax quarterly, the whole tax was to be collected in one instalment in January, in order that, as nearly as possible, the whole of the tax should become available in the year in which it was imposed. Secondly, for the "assessed taxes" to substitute licence duties on the same articles; to simplify the assessment; to make the duty payable prospectively, not, as was at present the case, retrospectively; and to make it payable in one sum, and not in two as heretofore. Thirdly, to collect the land tax and the house duty once a year instead of in two half-yearly instalments.

These very important proposals deserve some notice in detail. To take the income tax first. Under the old system there were three collections in the year. The tax was imposed (in an ordinary year) in April; on the chief Schedules A, B, and D,* the first two quarters of the tax were collected in the following October, the third quarter in January, and the fourth not until the following April, that is, not until after the close of the financial year in which the tax was imposed. Thus but three quarters of the tax were professedly collected in the year in which it was due, and there were moreover always considerable arrears from the January quarter, still uncollected by the end of March. This was the ordinary system in force in England, though in Scotland and in some of the large towns in England, a system of but one collection in the year had already been introduced. The income tax imposed in any given financial year was in future to fall due on the 1st of January following. In order not to press too hardly on the taxpayer, three months' grace was to be given when requisite; but the tax was, in any case, to be paid by or before March 31st—within, that is, the financial year. Thus, though some arrears were still unavoidable, they would be reduced to a minimum, and, as nearly as might be,

* On Schedules C. and E. (fundholders and salaried officials), the income tax directly deducted from dividends and salary, there was no occasion to change the time or the mode of collection. Schedules A. (land, houses, &c.), B. (rents of land, houses, &c.), and D. (profits of trade), produce six-sevenths of the whole income tax revenue. See *Appendix K.*

the whole proceeds of the tax would be received within the year.

The "establishment" duties had been combined by Pitt with the window tax and inhabited house duty under the name of "assessed taxes;" and it was to them, ready to his hand, that he first had recourse in his attempt to make property bear a large share of the war expenditure.* These duties, an excellent form of direct taxation,—taxation on expenditure, and mostly on the pomps and vanities of this wicked world—dated from the period between the middle and the end of the eighteenth century. The earliest was the tax on carriages; then came the tax on persons possessing silver plate, soon repealed; to be followed by the tax on man-servants, on riding and driving horses, on race-horses and shooting, on horse-dealers, on hair-powder, on dogs, on watches and clocks; the last, however, was subsequently replaced by a tax on armorial bearings.†

In 1823 the "assessed taxes" proper, exclusive that is of the window tax and house duty—taxes which, in some shape, formed a connecting link between the old poll taxes and the income tax, —were reduced by one half, and as regards Ireland repealed altogether. It was not until 1853, however, that their turn came for reform, and in that year Mr. Gladstone took them in hand.‡ Never very simple, what with exemptions, compositions, and peculiarities of assessment, the duties had become so complicated, and were governed by such a mass of unintelligible statutes, as to be a terror to the honest man and a joy unto the evil doer. Instead of the progressive scale of duties on the establishment, a fixed and simple charge was levied for every "article" used. In spite, however, of the very considerable improvements that had been made in 1853 the duties were still various and complicated; and indeed satisfactory reform could

* See *I. 7 and 111.*

† *I. 3 n.* "A truly free Englishman walks out covered with licences. It is impossible to convict him. He has paid a guinea for his powdered head, a guinea for the coat of arms upon his seals, a three-guinea licence for the gun he carries upon his shoulder to shoot game, and is so fortified with permits and official sanctions that the most eagle-eyed informer cannot obtain the most trifling advantage over him." Sydney Smith, in *Edinburgh Review*, 1820.

‡ See *I. 124.* According to Mr. Dowell, the assessed taxes in 1853 were levied under no less than 72 different Acts of Parliament (iii. 179). Under Lowe's Act (32 & 33 Vict. c. 14), enactments contained in 52 Acts of Parliament were repealed, and with them fell 2,900 judges' decisions practically then in force.

only be brought about by the method adopted by Mr. Lowe, of changing the assessed taxes into licence duties.

A step or two in the direction of substituting excise licences for assessed taxes had already been taken. In 1857 the tax on race-horses had been transferred from the "Assessed taxes" to the "Excise." In 1860 the sporting certificate was changed into an "excise game licence." But the first real step had been taken in 1867, when Mr. Ward Hunt had abolished the assessed tax on dogs, and in lieu of it had imposed an annual licence duty on each dog kept. The old tax had been 12*s.*, with some exemptions; * the new duty was a uniform one of 5*s.* on all dogs over six months old, without exception. This duty was raised by Sir S. Northcote in 1878 to 7*s.* 6*d.*, and exemption was given in the case of sheep-dogs, and an unsuccessful attempt was made to reduce to two months the six months' limit of age.† Dogs had been the pioneers, and the change in the duty in 1867 had proved to be eminently satisfactory. Evasion, previously very rife, was greatly diminished. The number of dogs brought under licence at once doubled, and this increase, together with the gain by the abolition of exemptions, produced as much revenue as before.

* The original Bill for imposing a tax on dogs was introduced by "Dog" Dent in 1796 (*H.*, April 5th and April 25th). The object of the Bill was, as stated by Mr. Dent, "to promote the relief and benefit of the poor. If carried into effect it would lessen the poor rate, render provisions more cheap and plentiful, diminish the instances of hydrophobia, and at the same time open a considerable source of revenue. . . . The application," added Mr. Dent, "of that quantity of food which was at present consumed by dogs to the use of the poor would tend to augment the population of the country." The preamble of the Bill stated that "the calamities of canine madness frequently happen to His Majesty's subjects, and to their cattle and other property;" on which Sheridan remarked that he had never heard "of furniture behaving in a disorderly manner, or a dumb waiter barking with the hydrophobia." Dent's Bill was lost; but it suggested to Pitt a tax, of which he at once took advantage, and he imposed a dog tax at the rate of 5*s.* for sporting and 3*s.* for non-sporting dogs. Subsequently the tax discriminated between greyhounds and other sorts of sporting dogs, and in 1853 (including the duty on packs of hounds) there were five different charges imposed, from £1 2*s.* on greyhounds to 9*s.* 8*d.* on "other dogs." In 1853 the duty was fixed at a uniform charge of 12*s.*, a rate, however, still far too high to obviate evasion. In 1853 the duty amounted to £160,000, 323,000 dogs and 81 packs of hounds being brought to charge; in 1866 to £267,000, with 439,000 dogs and 121 packs of hounds. In 1869 licences for a million dogs were taken out. By 1886 the revenue amounted to £350,000, and the number of dogs brought to charge to 926,000, but some exemptions had by this time been introduced. (See Dowell, iii. 293; C. 82 and C. 82 i., 1870, and C. 2979, 1885, &c.) The dog duty in Ireland is levied in the form of a local tax of 2*s.* per dog.

† "I am told of persons who keep dogs, and when someone says to them, 'That is the same dog I have seen last year,' the answer is, 'Oh, no, my dogs are never more than six months old.' I propose, therefore, that the limit of exemption should be reduced from six months to two months." (Sir Stafford Northcote, *H.*, April 4th, 1878.)

Mr. Ward Hunt himself had intended to deal further with other assessed taxes, and now his scheme was developed and completed by Mr. Lowe. Under the existing system, the taxpayer had to make a return in April of the dutiable articles he had kept or used during the previous year, and on these he was assessed for the duty. The first half of the amount due from him was, however, not collected till the following October, and the other half not until the following April. Thus "the tax could be incurred in one year, assessed in another, and collected in a third." These assessed taxes were collected by the local tax-gatherers—the amateur, not the professional—and the whole system was most unbusinesslike. As the assessment was often not made until more than a year after the articles had been used, the most honest and conscientious taxpayer was liable to err, and there was but little means of checking the accuracy of the return, which itself was no easy one to make, and great evasion ensued. Removals, deaths, and bankruptcies all told against the revenue, and the semi-annual collection of so small a tax was in itself wasteful. Under the new arrangement of 1869 the duty was to be paid prospectively, not retrospectively. At the beginning of each year, the tax-payer would have to declare what number of dutiable articles he intended to keep from January to December (if he subsequently added to them a further payment would have to be made), and on these the duty would become immediately payable in one sum.

The duties were also simplified, chiefly in order to make the declaration easy and to minimise evasion. The tax on hair-powder, producing only £1000 a year, was abolished, having served its turn, by producing in its time a respectable amount of revenue, and by hastening the end of an odious if picturesque fashion.* The duty on armorial bearings was reduced to a uniform £2 2*s*., if the arms were put on a carriage, and to £1 1*s*. if otherwise used.† Instead of the variable duty depending on

* The tax on hair-powder was imposed in 1795—to the Great War, indeed, most of the small taxes can be traced—at the rate of a guinea per annum, when the fashion of powdering the hair was in vogue. The tax at first produced some £200,000 a year, but, as fashion changed, the proceeds dwindled, until at last it came to be paid merely for the luxury of a powdered coachman or a brace of powdered Jeames de la Pluche. The tax in 1868 produced £925, paid by 847 persons.

† The duty on armorial bearings was imposed in 1798, in three classes. Subsequently somewhat increased, they were again altered in 1853, and reduced to two

age * an uniform duty of 15*s.* was to be charged for each man-servant, in whatever capacity he might be employed, or by whatever name he might be called. Considerable alterations were to be made in the horse-duty and carriage-tax, but of these we will speak later. In regard to the land tax and inhabited house duty, the only alteration proposed was to change the semi-annual collections of October and April into a single collection in January.

The immediate financial effects of these changes were considerable. Of the income-tax, five quarters would be received in 1869 instead of only four, namely the quarter outstanding from 1868, and the four quarters of the current year. And the change entailed but a slight burden on the income-tax payer. The quarter (of arrears) due in April, 1869, would be collected in April, but the two quarters due under the old system in October, would not be collected until the following January—a three months' grace on two quarters' payment. On the other hand, the quarter, which under the old system would not have fallen due until April, 1870, would now fall due in the previous January—an acceleration of three months on one quarter's payment. On balance, therefore, while the Chancellor of the Exchequer would receive within the financial year an additional sum of £1,800,000 (on the 6*d.* tax), or about £300,000 on each penny, by the acceleration of the April quarter, the income-tax payer would at the same time receive a benefit to the extent of a credit of three months, on one-half of his payments.

The payers of assessed taxes were not to escape so lightly. During the actual period of transition from a retrospective to a

classes—a duty of £2 12*s.* 9*d.* on those using armorial bearings who were chargeable for the duty on a four-wheeled carriage; and a duty on other persons of 13*s.* 2*d.* In 1886, 55,500 licences were taken out.

* The tax on servants was first imposed by North in 1777, at a guinea for each male servant. In 1785 Pitt introduced into the duty his favourite system of progressive taxation, the charge per head rising as the number of servants increased. A bachelor himself, he picked out bachelors for a double duty on their servants. Averse to the fair sex, taking a hint from Holland, he extended the tax to "female" servants. The latter tax was laughed out of existence a few years later; the former distinction between bachelors and "persons not bachelors" actually survived until 1853. In that year the complicated and progressive scale was changed into a fixed duty of 21*s.* on every servant of 18 years and upwards, and 10*s.* 6*d.* on those below that age, with certain exemptions. This distinction had, however, its drawbacks, and the servants of that day—as always the "puppy"—seemed to remain below the taxable age for a most unconscionable time. In 1886 181,000 licences for male servants were taken out.

prospective system, they would of course be somewhat heavily mulcted, for they would have practically to pay two years' duties in one year. But in order to ease the burden, "for this occasion only" three-fifths of the tax instead of the whole would be demanded in January, 1870, the balance being left standing over until the following April. The position would then stand thus. The payments under the assessment of 1868–9 would fall due and would be collected, the first moiety in October, 1869, and the second moiety in April, 1870. But between April, 1869, and January, 1870, with the exception of the old October payment, there was to be a nine months' jubilee, during which no assessed taxes would fall due. In January, 1870, the full duties for the year 1870 would, under the new system, fall due.* The assessed taxes were producing about £1,150,000 a year, and the change of system by practically bringing two assessments into one year would—after certain alterations that were to be made—produce within the twelve months an extra million of revenue. Of this, however, it was intended that only £600,000 should be actually collected in the financial year, leaving £400,000 to £500,000 to stand over until April, 1870.† Against this additional sum of about £600,000 which it was expected would be received in the year, the taxpayer would have had his nine months' grace; while actual relief to the extent of £150,000 a year was to be given by the simplification of the taxes themselves.

On the land-tax and house-duty, the taxpayers would, in the end, on balance neither gain nor lose. The acceleration of the moiety of the duty formerly due in April, 1870, to the previous January, would be balanced by the postponement of the collection of the moiety due in October, 1869, until January, 1870. And, meanwhile, in consequence of the change, the Chancellor of the Exchequer would receive within the current year an extra half of the tax—in April, 1869, one half, and in January, 1870, two halves—in all nearly a million extra.

Thus, by a sort of "parliamentary magic," additional revenue

* See *P. P.* 141 of 1869.

† "I have been asked," said the Chancellor of the Exchequer, "whether a man who marries in April will be taxed for his establishment. I say, if he marries in April, and if his matrimonial speculations turn out unfortunately, and he hangs himself on the 29th of December, there will be no tax on his establishment."

to an amount of £3,350,000—income-tax £1,800,000, assessed taxes £600,000, land-tax and house-duty £950,000—would be received within the financial year 1869, with a further £400,000 in 1870. The whole scheme was somewhat of the nature of the operation of 1859 and 1860, when the malt and hop credits had been shortened. The period over which the taxpayer might spread his payments was shortened; the State diminished the amount of credit it formerly allowed. No doubt the revenue, which, under the old system, would in the course of nature not have been received until the succeeding financial year, was forestalled and absorbed into the current year. But if the year eighteen hundred and sixty-nine gained at the expense of eighteen hundred and seventy, eighteen hundred and seventy would, in exactly the same way and to an exactly similar amount, forestall the revenue of eighteen hundred and seventy-one. That year would similarly absorb the revenue of eighteen hundred and seventy-two; "though," as Mr. Lowe remarked, "how the question will be settled when the world comes to an end, I am at a loss to know."

So well did the new system work, so convenient was it to the taxpayer, so much greater were the facilities of collection, that, instead of only the expected £3,350,000, the whole of the accelerations of revenue, together with some additional unexpected receipts, were received in the year. The Land and Inhabited House Duty was all collected, and easily collected, within the year. The Income-tax, with the accelerations, produced nearly £700,000 on the whole more than had been expected — £10,050,000 against £9,360,000 — due partly to the greater ease in the collection of arrears, and partly to the facility of collection under the new system. But the late "assessed taxes" showed the best results. The new license duties produced within the year, without the slightest pressure, very nearly the whole (£1,050,000) instead of only three-fifths (£600,000) of the prospective payments. Moreover, while the simplification of the duties had entailed a loss of revenue, the loss had been almost wholly made up by savings on deaths, on removals, on bankruptcies, and by a great diminution in evasions. Instead of a diminution of £150,000 in consequence of the reductions that had been given, the receipts

were but £50,000 less than in the year before: a result "achieved in a very desirable way, not by pressing hard upon those who did pay, but by making those pay who formerly did not." The Exchequer, in the financial year 1869, gained in all nearly four millions and a half, while the extra money-burden on the taxpayer only amounted to the very insignificant sum of £38,000! * though no doubt there had been entailed besides some little inconvenience. A complete refutation of the old adage "ex nihilo, nihil fit."

Nor was this all; irrespective of the pecuniary results, the gain to the taxpayer as well as to the State was considerable. To the former, the simplification of assessment and of collection, and the reduced number of collections, brought a considerable real and permanent gain, by diminishing trouble, worry, and expense.† To the latter, the general simplification of assessment and collection was naturally of advantage, while there was an immediate saving, estimated at about £100,000, in the cost of the collection of the income-tax alone. Then there disappeared also what may be called the "hanging gale" of taxation, the existence of which confused the accounts, caused part of the revenue of one year to be collected in another, and occasionally necessitated borrowing in anticipation of the ultimate yield of a tax. For the first time, very nearly the whole of the taxation imposed within the year was received in the year in which it was required. An immense gain, especially in case of emergency, in time of war, when it was essential to have immediately and fully available the resources from any taxation that it was thought necessary to impose. Wars are now, as Mr. Lowe said, "short agonies instead of long torments." Instead of being reckoned by years, they are now reckoned by months or even weeks, and the "antiquated

* As estimated by Mr. Lowe in 1870 (*H.*, April 11th, Budget Speech), namely, loss in interest to the payers of assessed taxes from the acceleration of payments, £60,000; gain to the income-tax payers on the three months' retardation of payment which they obtained, £22,000; net loss, £38,000.

† The Chancellor of the Exchequer gave instances of the very diminutive sums for which the majority of income-tax payers had to be constantly dunned.

Two-thirds of the income-tax payers under Schedule D (with the income tax at 4*d.*, its "normal amount") paid 13*s.* 4*d.* of income tax. Thus every year they were called on by the collector for 6*s.* 8*d.* in October, 3*s.* 4*d.* in January, and 3*s.* 4*d.* in April! Then, in the case of the house-duty, on houses under a £10 rental the landlord paid 20*d.* in October, 10*d.* in July, and 10*d.* in April. "I cannot," said Mr. Lowe, "imagine a more melancholy waste of public time and money than such a system as this."

means of taxation" are not suited to meet modern requirements. The improved system of levy benefited the Exchequer, benefited the taxpayer, benefited the nation, and no one apparently was a penny the worse.

One considerable objection was indeed urged against the proposal. Under the old system the revenue receipts had been spread over the year, and had corresponded pretty closely with the requirements of the Treasury. But, under the new system, there would at one time be a plethora of money standing to the credit of the Treasury at the Bank on which no interest would be received, and, at another, such a dearth of receipts that the Treasury, in order to meet its liabilities, would have to borrow from the Bank, paying interest on the loan. Such ups and downs, it was contended, would not only be costly, but would disturb the money-market and the rate of discount, by causing the deposits at the Bank of England unduly to fluctuate. These objections were frankly acknowledged to be sound, but it was argued that the advantages to be attained by the State as a whole, and by the individual taxpayer, would more than outweigh the objection thus urged. Moreover, it was contended, that the monetary transactions between the Treasury and the Bank were very much mere matters of account, and as they would be fully discounted beforehand, no real disturbance of the money-market would be caused by the fact of the Government balances being the one half of the year heavy, the other half light. Private deposits, it was also asserted, vary inversely to the size of the Government balances, and therefore the position of the Bank itself would not really be affected by these changes, the Government money, as it was disbursed, to a very large extent coming back to the Bank as private deposits.* Furthermore, argued the Chancellor of the Exchequer—and the "City" raised its hands in horror at his flippancy — was he the keeper of the money-market? The money-market must look after itself. The advice given him was so contradictory, the criticisms passed on his proposal were so conflicting, that he had come to the conclusion that it was better for him to go his own way, to look after his own affairs, and to leave the monied interest to take care of themselves.†

* See Debate, *H.*, May 27, 1869.

† See *H.*, May 27, 1869, and April 11, 1870; Noble, *National Finance*, p. 83. In

The effect of the new arrangement was undoubtedly largely to swell the Balances. In March, 1869, they had stood at £3,700,000,* having been reduced to this parlous state through the policy pursued by Mr. Ward Hunt of draining them to meet a large portion of the war expenditure. In March, 1870, they were full to overflowing, the amount standing to their credit being £8,600,000—an increase due partly to the restitution to the Balances of the money taken to meet the war charges, but still more to the new system of collection. During the next year or two the Balances were even fuller than in 1870. In 1871 they rose to 9¼ millions, and in 1873 to 12 millions, from whence, however, they gradually diminished, falling in 1879, under stress of war charges and unlimited borrowing, to the exceptionally low sum of 2¼ millions,† having in the intermediate years averaged about 6¼ millions. It is clear, therefore, that the balances soon adapted themselves to the changed conditions of collection, and that the money market proved in effect quite competent to take care of itself.

The "windfall"—for windfall it was, seeing that such a thing could not recur—raised the surplus by a stroke of the pen, from £30,000 to £3,380,000, and rendered possible extensive remissions of taxation. One penny of income tax out of the extra two assumed in the estimate, was relinquished, involving a gross loss (after including the proportionate loss on the "windfall") of about a million and a half, of which, however, about a quarter of a million would fall on 1870. The fire insurance duty and the corn registration duty were repealed; the former at a gross cost of a million a year ‡—in the current year £500,000—the latter, at a gross cost of £900,000—in the current year £700,000. On "the assessed taxes" there was to be, as we saw, a reduction of some £150,000 to £200,000. At an immediate cost of between £200,000 and £300,000, the taxes on "locomotion" were overhauled and reduced. The licence duties

order somewhat to mitigate the disadvantage of a large balance, the dividend payments on some of the terminable annuities were changed from a lean quarter to a fat quarter. A change which, by bringing in an additional quarter's payment in the year, increased the debt charge for 1869 by some £350,000.

* Exclusive of a million borrowed from the Bank of England in aid of Ways and Means.—Statistical Abstract, Table No. 9.

† Also exclusive of a million borrowed from the Bank of England.

‡ See *I. 333.*

on the sale of tea, coffee, cocoa and pepper were repealed. The total loss of revenue in the year from all these remissions would amount to nearly three millions, with a further loss of about £850,000 in 1870.* After deducting from the surplus the remissions falling on 1869, a balance of £440,000 was left. This surplus was to be retained, and rightly so, looking to the inelastic nature of the revenue, and to the fact that large remissions of taxation had been given, by means of revenue which would not recur.

In connection with all these remissions of taxation, it may legitimately be asked whether it was not somewhat rash thus to grant remissions of taxation, especially to repeal two millions of taxation by means of money which, in the nature of things, could be received once, and never again? Was not the Chancellor of the Exchequer being generous at the expense of his successors? I think it is clear (putting aside for the moment the question of whether the remissions themselves were wise and expedient) that financially they were fully justified. The net remissions of taxation granted, to take effect in 1869 and in 1870, came to about $3\frac{3}{4}$ millions. But the war charges of 1869, which it was hoped would not recur, came to £4,600,000, and this sum was being met from the ordinary revenue. Thus, against the $3\frac{3}{4}$ of remissions there would be a diminution of $4\frac{1}{2}$ millions of expenditure, or a balance on the right side of three quarters of a million; while the effect of utilizing the temporary resources had been to render immediately available, for the purposes of remission, revenue which otherwise would have been locked up for another year. The operation had plenty of "cover;" the liabilities of the current year were being fully met, and no injustice was being done to the taxpayer of the future. Nothing succeeds like success: it is failure alone that is criminal. If indeed the expenditure had been largely increased, if the revenue had greatly fallen off, the Chancellor of the Exchequer might have been landed in a deficit on the year, and his proposals would not have been justified. But the result justified the plan. So great was the elasticity of revenue, so considerable the economy, that the estimated surplus of half a million grew into a realized surplus of over three and a half millions.

* The estimated results of the changes of taxation proposed were nowhere clearly summed up in the financial statement.

The relic of the old corn laws, the duty of 1*s.* a quarter on corn,* intended originally to be rather a registration duty than a source of revenue,† had, of late, in consequence of the increased consumption of foreign corn, become very productive. The yield of the duty acted as a sort of barometer of the state of the home harvest, the revenue rising when the harvest was deficient, falling when it was abundant. In 1850 the duty produced about half a million of revenue, with an import of 35½ million cwt. of corn and flour. In 1854 the receipts fell to £330,000; in 1862 they rose as high as £970,000; and in 1869, with an import of corn of about 70 million cwt., the duty produced £800,000 to £900,000 a year.

' On strict free-trade principles the tax was indefensible; corn was the only remaining article produced at home on which a custom duty was levied without a countervailing excise duty. The tax was a tax "on raw material, in its very rawest state." Its imposition involved the imposition of duties on some forty other articles of a similar nature, such as meal, arrowroot, tapioca, sago, maccaroni, starch, &c., under the guise of which, if free, corn might have been fraudulently introduced. The abolition of the duty, and a system of free entries would, it was hoped, tend to make England the great commercial *entrepôt* of the corn trade.‡ Lastly, as a registration duty the tax was superfluous. "It is no more difficult," said Mr. Lowe, "to register the arrival of corn without levying a duty of 1*s.* per quarter upon it, than it is to roast a pig without burning down a house." All these arguments were, no doubt, sound. At the same time, there was something to be said against the permanent relinquishment of a branch of revenue profitable in itself, and collected with very little trouble, expense or hindrance to trade, and one practically not affecting the price of food; and it is pretty certain that if the duty were still in existence, it would now be retained. But the period was one of a somewhat

* Changed a year or two previously into a duty of 3*d.* a cwt.

† The produce of the old corn duty between 1840 and 1846 varied from £367,000 in 1845 to £1,363,000 in 1842. *Stat. Abstract*, C. 144, p. 7.

‡ An expectation that has not been fulfilled, nearly all the corn brought into England being consumed in the country. In 1868 the total imports of corn and flour amounted to 67 million cwt. The total exports to 800,000 cwt. In 1885, the corresponding amounts were 126 million cwt., and 1,600,000 cwt.

reckless relinquishment of indirect taxation, and though advantageous to trade, the fiscal action taken in 1869, and in the years immediately succeeding, tended to hamper the finances of the country, and to hinder the necessary redemption of debt.

The alterations and simplifications that were made in the duties on locomotion were of considerable importance.* The taxes affected were the duty on horses and mules, the carriage tax, and the horse dealers' duty (late assessed taxes), together with the post horse, stage carriage, and hackney carriage duties. The duty on horses and mules, dating from 1784, was in old days on a progressive scale and extremely complicated. Somewhat improved, reduced and simplified in 1853, it was still charged under no less than ten headings, and was cumbered with several exemptions. The place of the complicated tax was now taken by a single and uniform licence duty of 10*s.* 6*d.* for each horse, with exemption for those used in trade or husbandry; a duty that was abolished in 1874.† The duty on horse dealers, levied at the rate of £27 10*s.* on those "residing within the bills of mortality"—an uncomfortably suggestive name for the Metropolis—and of £13 15*s.* on all others, was changed into an uniform licence duty of £12 10*s.* This duty was also repealed by Sir S. Northcote in 1874.‡

The simplification of the carriage tax, the oldest of the assessed taxes, dating from 1747, was a greater work than either of these. The progressive scale of duties introduced by Pitt, added to, consolidated, reduced, and confused by subsequent Chancellors of the Exchequer, had been abolished by Mr. Gladstone in 1853.‖ But the system which he substituted, though a great improvement, was still very complicated, the charge varying with the number of wheels, and the number of animals used, as well as with the size both of wheels and animals; the lesser the diameter of the wheels, and the smaller the animal the less the

* See for this section, under their respective heads, Budget Speeches, 1853, 1866, 1869, 1870, &c.; Report of I. R. Commiss. 1857, 1870, 1881, and 1885, &c.; Porter, 299, 541, &c.; McCulloch, *Com. Dict.*; Dowell, vols. ii. and iii.; Macaulay, vol. i. Chap. iii.; Taylor's *History of Taxation*; *Ency. Brit.* (9th ed.), under "London," "Roads," "Carriage," &c.; *The Reign of Queen Victoria*, vol. ii., "Locomotion and Transport," &c., &c.

† This duty is now again, in 1888, to be revived.

‡ This duty is also to be revived by Mr. Goschen in 1888.

‖ In 1812 there were no less than 27 different charges on carriages, a number reduced by 1853 to 13. (C. 82 I., 1870, p. 172.)

tax.* This complicated scale of duties was changed by Mr. Lowe into two licence duties. The one, of £2 2*s.* for every carriage with four or more wheels, and weighing four cwt. or upwards; the other, of 15*s.* for every vehicle with less than four wheels, or although having four or more wheels, of less weight than four cwt. The old duty, by its incidence, had, as Mr. Lowe said, encouraged cruelty to animals, the smaller animals having had to contend with the increased friction of the smaller wheel. † All the former distinctions between carriages and horses kept for pleasure or kept for business disappeared.

Along with these simplifications of the assessed horse and carriage duty—constituting in some cases a tax on luxury, in others a tax on necessary professional outlay, in others a tax on trade—the owners of hackney carriages, stage carriages, and post horses, were to be relieved by the repeal of the duty levied on them.‡ The "stage carriage" tax dated from 1779,‖ and comprised an annual licence duty of 5*s.*, as well as a duty charged on the number of miles travelled at the rate of ½*d.* a mile. The mileage rate was doubled in 1783, raised to 2*d.* in 1797, and further raised as the war went on, when different rates were charged according to the number of passengers that could be carried in the vehicle. These varying rates lasted, with some changes, until 1842, when Peel re-imposed an uniform charge at the rate of 1½*d.* a mile. In 1855, the greatly increased competition of

* There were no less than ten different rates. The line of difference as to size was drawn at wheels of a diameter of 30 inches, and at ponies or mules 13 hands high.

† In 1882 Mr. Gladstone unsuccessfully attempted to increase the carriage tax: the £2 2*s.* duty to £3 3*s.*, and the 15*s.* duty to £1 1*s.* In 1883, Mr. Childers reduced the charge on "licensed hackney carriages with four wheels" to the duty paid on two-wheel vehicles, namely, 15*s.*; and he introduced a new form of licence, consisting of a moiety of the charge (7*s.* 6*d.* for hackney and £1 1*s.* for other than hackney carriages), on those only used for half the financial year from September 30 to March 30. Mr. Goschen now (1888) proposes to charge £2 2*s.* for every carriage with four wheels, unless drawn by one animal only, when the duty will be a guinea. Cruelty to animals in another form seems to be about to be introduced. Every carriage with less than four wheels will be charged 15*s.* Mr. Goschen also proposes to introduce a "wheel tax" at the rate of 2*s.* 6*d.* a wheel on all vehicles over 2 cwt.; and an additional tax on all vehicles (with certain agricultural exceptions) exceeding 10 cwt. in weight.

‡ The Chancellor of the Exchequer, in one of those gratuitous "asides" which so endeared him to the various classes of the community, referred to the case of the 100,000 "gentlemen who drove gigs," and mentioned that, though he did not indeed intend "to interfere with so large an army," it would personally have gratified him to be able "to put a little additional charge on them."

‖ The "coach diligence" of the end of the eighteenth century became the "Mail coach," when Pitt arranged that the mails should be carried by coach instead of on horseback.

the railways made a further reduction of duty just and necessary, and the mileage rate was lowered to 1*d.* In 1863 Mr. Gladstone reduced the cost of the ordinary licence from the £3 3*s.* to which it had risen, to 10*s.* 6*d.*, and the mileage rate to ½*d.* for the class of smaller stage carriages. In 1866 he further reduced the rate for all stage carriages to ¼*d.* a mile, the utmost his surplus then permitted him to do. The tax was in 1869 producing about £50,000 a year, against ten times that amount thirty years before. But even at the rate of a farthing a mile the burden on omnibus and other passenger companies was proportionately heavier than that on railways. * The post-horse duty, imposed in the old days of "posting," was charged as a mileage duty, originally at the rate of 1*d.* a mile, subsequently raised to 1½*d.*; together with a licence duty. In 1853 the whole charge had been commuted into a licence duty varying with the number of horses and carriages kept, and this duty Mr. Lowe now repealed. In 1837 (before which time the tax had been "farmed") the revenue derived from it had amounted to £266,000, which by the time of its repeal railway competition had reduced to £143,000.

The "Hackney Carriage Duty" had always been confined to the metropolis. The original tax on the proprietor was imposed in 1694, though, before that time, so great had become the nuisance arising from the multiplication of hackney carriages in the narrow streets of London, and so influential were the competing interests, that the carriages had been licensed and limited in numbers, and their fares regulated.† In 1815 the number of licences so issued for "coaches," "chariots," or "chairs," ‡ was 1200, the licence

* The Commissioners of I. R. computed in 1870 (C. 82, 1870) that, at the farthing rate, the London General Omnibus Co. were paying about £15,000 a year, "more, by £7,000, than their share of taxation at the same rate as the railways" (p. 46).

† The number in 1625 was limited to 200, increased in 1694 to 700; the fares were measured by distance. In 1601 a Bill was introduced but defeated, "to restrain the excessive use of coaches." The watermen especially complained bitterly of the competition to which they were subjected:

> "Carroaches, coaches, Jades, and Flanders mares,
> Doe rob us of our shares, our wares, our fares;
> Against the ground we stand and knock our heels,
> Whilst all our profit runs away on wheels."—*Tayler.*

See *Ency. Brit.*, "Carriage."

‡ A "chariot" held two inside and a servant out, as did the original "cab," introduced about the time of the Peace. The capacity of the "chaise and four" of John Gilpin's time was evidently greater, though, unfortunately for the citizen of famous London Town, not large enough to accommodate more than "my sister and my sister's child, myself and children three."

costing 10*s.* a week. In 1832 a licence duty of £5 was imposed on the proprietor, in addition to the 10*s.* duty. In 1853 the £5 licence duty was reduced to £1, and the other duty to 7*s.* for seven days' use a week, or 6*s.* if exclusive of Sunday. The fares were altered, reduced, and fixed,* and the supervision of the carriages was handed over to the police, while a charge of £11,000 a year was imposed on the revenue to meet this expense. The proprietor of a London "cab"—the "Cabrioily" of Mr. Cluppins' unfortunate remark—who on the one hand was not allowed to charge more than a very limited fare, and on the other was heavily taxed, had, as Mr. Lowe remarked, "taken it out in badness." † This unfortunate individual was now to be relieved to the extent of some £15 to £18 a year, which it was hoped would go, and which, to a very large extent, has gone, to improve the state of the vehicle, and to mend the manners of the driver. The existing duties were to be abandoned; but the police licence, costing £2, was still to be exacted; and the reduced carriage tax of £2 2*s.* on a "four-wheeler," and 15*s.* on the two-wheeled hansom, together with the horse tax (10*s.* 6*d.* on each of the two horses necessary) was still to be levied. But, in all, instead of the £20 to £23 previously charged, the new duties would at the most amount to some £5 3*s.* The total gross loss entailed on the Exchequer, the total relief given by the abolition or reduction of these different duties on locomotion, would be about £300,000 a year.

These reforms of the horse and carriage duties were of considerable value. They marked the full recognition of the fact, but partially admitted in 1853, that while in former times the richer classes had made great use of public vehicles, post horses, and the like, they now almost exclusively used their own horses and carriages; and, in fine, that while locomotion had been previously to a large extent a luxury of the rich, and had been rightly taxed as such, it had now become the necessity of the poor.

The speech introducing this Budget of 1869 was a work of art. The Chancellor of the Exchequer first enlarged on and emphasized

* In 1853 the fare was reduced from 8*d.* to 6*d.* a mile. In 1870 the Home Secretary of the day attempted a system of free-trade in cab charges, which however was not successful. Ultimately the fare was fixed at 1*s.* for the first two miles, and then sixpence a mile; at which it now stands.

† Witness Sam Weller's observation about "two mile of danger at eightpence."

the very sombre aspect of the past and of the coming year. The revenue stagnant and inelastic; a large expenditure; a large accumulated deficit; a heavy war charge still to be met; the balances depleted; no real surplus, and no likelihood of remissions; a heavy income tax still in force. Without a word of hope, or a hint of what was coming, leaving the surplus and the Abyssinian debt to fight it out between themselves, "just as Ariosto leaves his two knights shivering their lances with equal fortune," Mr. Lowe turned to another subject. For nearly two hours by the clock, he discoursed on the question of the collection of the income tax, of the assessed, land, and house taxes, and of the improvements he proposed to introduce into the mode of their assessment and collection—improvements which it appeared would indeed diminish the cost and facilitate the collection of the taxes, but which must have afforded but cold comfort to an audience who were preparing to bear as best they could the burden of a sixpenny income tax. It was not until he had "exhausted time and encroached upon eternity" in discussing his proposed changes, with every minute detail, that he allowed any hint to fall of "certain financial alterations" which would follow.

Hey presto, pass! Three to four millions of money suddenly appeared. The war debt was to be met, the income tax was to be reduced by a penny, and other remissions were to be given, while a substantial surplus remained to be carried forward. The juggling was not the juggling of an ordinary conjuror; the wherewithal to make everyone comfortable was forthcoming, and at nobody's expense. A financial feat that must be the admiration and the envy of every succeeding Chancellor of the Exchequer.

The Budget of 1870 was introduced amidst the most encouraging surroundings.* The expenditure of 1869 had been kept down, the revenue had kept up, while the outlook for 1870 was eminently satisfactory.

The estimated ordinary expenditure for 1869 had been 68¼ millions, considerably less than the actual expenditure of 1868,

* Budget Speech, *H.*, April 11th, 1870.

and the actual expenditure had only amounted to 67½ millions.* Indeed the optional expenditure was less by some three millions than that of 1867, though still a million and a half above that of 1865: and it never was so low again.

The "heroic and patriotic" exertions of the two war service Ministers had been continued, and the army and navy expenditure had been reduced to the lowest point they had together touched since 1858. In that year they had together amounted to some twenty millions—twelve millions for the army, and eight for the navy. In 1869 they amounted to just over twenty-two and a half millions—army twelve and three-quarters, navy nine and three-quarters—having, in the interval, been as high as twenty-six and three-quarter millions in 1861, and down to just over twenty-three millions in 1865. In 1867 the charge had been twenty-five and three-quarter millions.† In 1870 the charge was even less, amounting to only some twenty-two millions—army twelve and a half, navy nine and a half millions. From this very low point, probably too low a point, the expenditure on the war services has mounted almost continuously, until, in 1886, they reached the, I venture to think, inordinately high figure of thirty-two millions and a half—army nineteen, navy thirteen millions and a half.

On the Abyssinian war charges there had also been a saving: instead of £4,600,000, the expenditure had been only £4,300,000. The reduced expediture of 1869, and the reduced estimates for 1870, were, the Chancellor of the Exchequer said, "the very root and basis of the present prosperous state of our finance; to them it is mainly that we owe the financial prosperity which now exists." And not only could the Chancellor of the Exchequer enjoy the fruits of practical economy, but he could rejoice in an elastic and productive revenue. Stagnation of trade was giving place to activity; confidence and credit had again recovered from the shock of 1866. Abroad there prevailed for the moment a calm which was only afterwards seen to have been the precursor

* Moreover, the debt charge had been larger in 1869 by £300,000, through a change in the date of paying some of the dividends on the terminable annuities, while a deficiency of over £200,000 due in 1868 had been paid in 1869. Thus there was a real saving of a million and a quarter over the expenditure of 1868.

† That is in each case exclusive of special war expenditure and of the Indian charge.

of a storm. Home politics were in a stable condition. A Ministry of great ability were in office, enjoying as yet to the full the support of the country. Ireland was to be pacified, education extended, the army and navy improved, economy and financial reform, together with drastic social reforms, were to be undertaken; and public belief in the power, ability, and stability of the Government of the day has much to do with that public confidence without which trade cannot expand.

A widespread feeling existed that prosperity was again to take the place of depression. A feeling of confidence which made rapid strides, and which, scarcely checked by the Franco-German war, reached its zenith in 1873, when prices, profits, and production were enormous, and trade seemingly ever on the increase. But the pace was too good to last, over-speculation and foolhardiness took the place of sound and sober trade. The crash came in 1876 and 1877, and the world is still only slowly recovering from the period of over-prosperity; England herself, though very hard hit, suffering perhaps less on the whole from the depression and the bad times than any other nation.

The Chancellor of the Exchequer profited to the full from these prosperous times. Roaring trade led to vast consumption; increased consumption produced ever-swelling receipts. The revenue, which during 1867 or 1868 had shown a reluctant and almost nominal increase of a few hundred thousand pounds, at once revived, and the old elasticity of revenue which had so singularly marked the closing years of Mr. Gladstone's period of office at the Exchequer, was beginning again to prevail.* Surplus after surplus was produced, debt was rapidly paid off, taxation was largely remitted, and the revenue supported the Chancellor of the Exchequer in his need, and enabled him easily to meet the increased expenditure which arose from European strife, from the arbitration award, and from petty wars.

The revenue of 1869, after taking into account the remissions of taxation that had been given, had been estimated at 73¼ millions, but the receipts had amounted to 75½ millions—a

* The elasticity of 1869 was largely attributed by Mr. Lowe to the great cheapness of corn, due to an abundant home and foreign harvest. Wheat, which had been at 72*s.* in April, 1869, had fallen to 48*s.* in April, 1869; and in April, 1870, was at 42*s.* Thus the money which would otherwise have been spent "in buying the food of the people" was set loose, and made available for the purchase of other commodities.

revenue up to that date unparalleled in time of peace, and only twice surpassed during the Great War*—a revenue larger by over three millions than the highest revenue received during the crisis of the Crimean conflict. Though the revenue received in 1869 was then almost unprecedented in amount, since that year only thrice has a lesser revenue been raised.†

The total expenditure of 1869, including the war debt of £3,000,000, had amounted to £71,860,000; extraordinary expenditure £4,300,000; and the very respectable balance of £3,570,000 had been left as the result of the year's transactions. The position of affairs was indeed very different to what it had been twelve months before. The war debt had been discharged, the ordinary debt had been largely reduced, and the balances were in a state of repletion; the revenue was on the increase, and the expenditure on the wane.

The past year had been financially prosperous for the new Government; the coming year opened even more auspiciously. The Chancellor of the Exchequer was indeed in an enviable position; the largest surplus ever known was at his disposal; his financial proposals were received with much favour —he was enjoying the fleeting moments of success and popularity.

The estimated ordinary expenditure for 1870, exclusive of the debt charge, which (in consequence of a change made in the payment of the terminable annuities) would be less by £400,000, was estimated at exactly the expenditure of the past year. There were no war liabilities to be met, and the estimates for the war services again showed a considerable diminution. The Civil Service estimates showed, however, an increase of nearly a million, part of which was due simply to a further change in the system of accounts, while the estimates for the Business Department contained the new item "Telegraphs." Thus again, there were introduced more of those changes of account, and those addi-

* In 1814 when the revenue was £77,900,000, and in 1815 when it amounted to £79,100,000. The actual tax revenue of 1869 was not, however, nearly equal to that of 1814 and 1815. In 1869 the receipts from the Post Office, the miscellaneous revenue, and the Crown lands, amounted to about £8,300,000, and the tax revenue to £67,100,000. In 1814 the tax revenue was £73,400,000, the other receipts £4,500,000. In 1815 they were respectively £74,600,000 and £4,500,000. In 1856 the tax revenue was £68,000,000, other receipts £4,300,000, total £72,300,000.

† In 1870, 1871, and 1874.

COLLEGE LIBRARY

tions to the expenditure and revenue, which make the comparison of one year with another so odious—to the enquirer. The transference this year to the Civil Service estimates, included some £150,000 from the Army estimates, and a nominal addition of some £200,000 on account of the Courts of Bankruptcy and Chancery, the whole cost of which was in future to be charged on the votes, and the fees, which formerly went in deduction of the grants, were to be paid into the Exchequer.*

In the previous year had appeared, in the result, though not in the estimates, a small item on either side of the account for the new telegraph service ; † a receipt of £100,000, and an expenditure of £60,000. The estimate for 1870 was for half a million of receipts, and £360,000 of expenditure. Sums which, for a time, rapidly increased, the revenue reaching a million in 1872, and a million and a half in 1880, and in 1886 amounting to £1,830,000. The expenditure, however, increased as rapidly, or more rapidly in proportion than the revenue, reaching a million in 1875, a million and a half in 1882, and in 1886 amounting to £1,935,000.†

An amount of revenue equal to that received in 1869 would not be available in 1870. The whole of the windfall had been already practically collected ; while about a million of taxation, remitted the previous year, would for the first time be lost during the current year ; in all, it was expected that 1870 would be worse off than 1869 by over four and a half millions. The old system of estimate was rigidly adhered to, and in spite of the satisfactory commercial outlook, and in spite of the fact that the Government had in the Queen's Speech expressed confidence in the "continued maintenance" of European peace, no allowance at all was made for any elasticity of revenue. The total revenue for 1870—the miscellaneous receipts would be greater than the year before—was

* In connection with this arrangement, the accumulated funds of the Courts of Chancery and Bankruptcy, amounting to about £5,850,000, were to be transferred to the National Debt Commissioners, and in lieu of them a book debt to the same amount was created, the debt being thus practically reduced by this amount, inasmuch as the money would almost certainly never be demanded. In the year 1870, in order to balance the accounts, a special payment of £473,000 was made out of the Consolidated Fund to the Courts of Chancery and Bankruptcy, a sum which was to be met by the ordinary revenue of that year. In 1871 a further sum of £155,000 was to be paid, and since then other small sums have been from time to time paid for the same purpose.

† See *II. 49*, history of the Purchase of the Telegraphs.

estimated at £71,450,000, the expected expenditure at £67,110,000, leaving a surplus of £4,340,000; this surplus was, however, partly nominal, for it included the remaining war penny of income tax which had been imposed in 1868, re-imposed in 1869, and which was not yet remitted, but which of right and of necessity must now be relinquished.

The surplus was to be slightly increased by a new tax on all those who "used or carried" a gun. Public opinion was much exercised at the time by an epidemic, especially in Ireland, it was said, for carrying revolvers,* while the "cock sparrow" hunt was greatly pursued, and the number of fire-arms carried and used, other than for sporting purposes, was rapidly on the increase.† The original intention had been to impose an uniform duty licence of £1 on every gun, in lieu of the old sporting licence. But the proposal was modified in Committee, and eventually the tax was fixed at 10*s.* (to produce £75,000) on anyone who carried fire-arms of any description—with certain necessary exceptions—apart altogether from the sporting licence, which was left unaltered, but which, if taken out, rendered unnecessary the payment of the gun tax. A proposal, in continuation of the "locomotion" reforms of the previous year, to change the five per cent. tax on passenger traffic into a tax of one per cent. on the gross traffic, shared the fate of Mr. Gladstone's somewhat similar proposal of 1863. The change would have cost the revenue £100,000, and, as Mr. Lowe remarked, when the opposition had become pronounced, if the railway companies did not like the scheme, they need not have it—for his part he was very glad to keep the money in his pocket.‡

* Mr. Lowe argued that the possessor of a revolver "holds six men's lives in his power," and carries about this deadly weapon "while he is drunk, or quarrelling, or bargaining, or, doing anything that may rouse his wildest passions."

† The reason given by Mr. Lowe for taxing revolvers and guns, because they were so dangerous, was singularly puerile for so logical a mind. He grounded his argument on the case of a boy who "shattered his skull in attempting to look down the barrel of a loaded gun,"—but whose conduct we can hardly suppose to have been regulated by absence of a duty on fire-arms! This argument—so far fetched as hardly to be "worth the carriage"—was somewhat of the same calibre as that used by Mr. Lowe in support of his match tax in 1871. He argued that it would prevent the careless use of matches and save loss to the insurance companies, for, said he, "there are a number of young gentlemen who amuse themselves with going about and throwing matches down the area, and very often while wine and beer are being unpacked and the straw is lying about, something takes fire." An argument which might almost as well have been used for the prohibition of areas, or for State regulation of the packing of wine and beer. ‡ See *I. 300* and *II. 309*.

By these minor changes, the surplus was raised to over four millions and a half, and the natural question arose, "What will he do with it?" A small addition was to be made to the debt charge—an addition almost microscopic, considering the revenue at the disposal of the Chancellor of the Exchequer. A further seven millions of Post Office Savings Bank stock was to be converted into terminable annuities to run until 1885, at an increased annual cost of some three hundred thousand pounds.*

A large number of remissions, of small as well as useless and vexatious duties, were proposed. At a cost of a few thousand pounds a year, the licence on soapmakers (the last remaining "tax on cleanliness") was abolished, together with those on paper-makers, on makers of watch-cases, vendors of playing-cards, and on still-makers—the last duty producing the large sum of £9 19*s.* 6*d.* per annum. At a cost of £30,000, the licence on foot hawkers was likewise to be abolished. The duty on "hail-storm, cattle, boiler, and plate-glass insurance policies" was, at a cost of £1,000, to be repealed. The impressed stamp on newspapers in lieu of postage—complicated, liable to evasion, expensive, dilatory, and inconvenient to the trade,—was repealed; and, along with it, the scale of "book post" was altered so that both newspapers and other printed matter should be carried at a cheaper and more uniform rate than before.†

The tax on newspapers was first imposed in 1712, for restrictive as much as for fiscal reasons, at the rate of ½*d.* for half, and 1*d.* for a whole sheet, and 1*s.* on each advertisement—a burden which soon killed most of the newspapers of the day—and, among others, destroyed the *Spectator*. The newspaper tax was increased by North, and in 1789 Pitt further increased it, on the ground that newspapers were "luxuries," and news a fit subject for additional taxation! In 1815 the duty was 3½*d.* for every sheet. Some newspapers still struggled on, and in 1816 the Government raised the duty by another ½*d.*, in order to increase the revenue,

* The new terminable annuity would cost £547,000 a year until 1885, the saving of interest was £210,000 a year, the net increase to the debt charge was therefore £337,000, and on the year £190,000.

† Under 6 ozs., ½*d.* for newspapers; for other printed matter, ½*d.* for every 2 ozs. or part of 2 ozs. The loss to the Post Office from this reduction would be £250,000 (for the year £125,000), the loss on the newspaper stamp duty £120,000, on the year £60,000.

and to curb the "licentious licence" of the press, that "root of all evil,"* against which they soon afterwards directed the most important of their Six Acts.

The tax was somewhat reduced in 1825, and in 1831 Althorp made an attempt to meet the ever-increasing intellectual activity of the time by a reduction of the newspaper tax.† This attempt was unsuccessful, but in 1833 he carried through a reduction of the advertisement duty from 3*s.* 6*d.* to 1*s.* 6*d.* on each advertisement without distinction of length. In 1836 Spring-Rice lowered the newspaper duty to 1*d.* a sheet. The immediate effect was a decline of revenue from about half to a quarter of a million; but the reduction which the newspapers were enabled to give in their price, at once increased their circulation, and, by 1854, the yield of the tax had again risen to the old figure. In 1853 the duty on advertisements was repealed, and the penny duty on newspapers was made to include more than before. This latter tax was practically repealed in 1855, but an impressed stamp to cover postage was still required, and it was this that was now repealed—and with it the last relic of the "tax on knowledge" disappeared.‡

The stamp laws were again to be reformed. The "stamp duties" pure and simple—that is, taxation on business instruments and documents, as distinguished from the other so-called "stamps," in the nature of licences, composition for fees, insurance or death duties—date from the end of the seventeenth century. This system of taxation, was, like so many other of our taxes, taken from the Dutch—from unfortunate Holland, which, during the prolonged struggle with Spain, had become the victims

* As Lord Sidmouth (Addington), the Home Secretary, called it; see his *Life*, iii. 29, 304, &c.

† The *Penny Magazine*, which had what was for those days an enormous circulation, and *Chambers's Journal*, at 1½*d.* a copy, were started in 1832.

‡ The number of newspaper "stamps" issued in 1801 was 16 millions, in 1821 it was nearly 25 millions, in 1831 it was 35 millions, and for 1836 the same. In 1837 the number had increased to 53 millions, and by 1844 had further risen to 71 millions. In 1854 the number of stamps impressed was 122 millions. In 1842 the newspaper paying for the largest number of "stamps" was the *Times*. Then came the *Weekly Dispatch*, and, in order, the *Morning Chronicle*, the *Morning Herald*, the *Morning Advertiser*, and then, together, the *Sun* and the *Globe*, the *Standard*, *Bell's Life*, and *Sunday Times*. See McCulloch, *Com. Dict.*; Dowell, iv. 350; Reports of Commiss. of I. R., 1857, 1870, 1881, and 1885, &c.; Report of Select Committee, 1851; Porter, p. 725, &c.; Chambers's *Biography of W. and R. Chambers*; *Ency. Brit.*, &c.

of every conceivable form of taxation.* The stamp duty in England had been at first confined to a limited number of "instruments"—the stamps, or rather stamped paper, varying between 1*d.* and 40*s.* Found to be a profitable and convenient form of levy, it was, during the next hundred and twenty years, extended to deeds, bills of exchange, promissory notes, receipts, sales, settlements, leases, mortgages, transfers, and bankers' notes. And gradually almost every species of business document was brought into the net—the receipts by 1815 amounting to about £2,800,000 a year.

In early days the duty varied according to the nature of the instrument, and at first depended almost entirely on the length of the document; that is, on the number of skins used. The number of words which went to one skin was limited by law, while, in order to protect the revenue, the ordinary legal verbiage of the instrument was not allowed to be curtailed—a most cumbrous and barbarous system of taxation, a relic of which still remained even until the days of Lowe.† Subsequently, in many cases, the amount of the duty was made to depend not on the verbiage but on the pecuniary magnitude of the transaction. But little was done to reform or lighten the burden of the Stamp Duty until 1850, when Wood sacrificed half a million of revenue to the simplification and reduction of the duties on conveyances, settlements, mortgages, leases, and agreements. Real reform was however delayed until Mr. Gladstone took the matter in hand in his far-reaching Budget of 1853.‡ By him, the stamp laws were considerably simplified and improved, and the profitable and convenient system of "penny taxation" was introduced. Further improvements, with a general extension of the stamp duties, and especially additions to the penny system of taxa-

* It is said that the Dutch in 1624, at their wits' end for a fresh way of raising the wind, offered a large reward to anyone who would suggest a new workable tax. The reward was earned by the suggestion of a stamp duty. McCulloch in his *Treatise on Economical Policy* (1853), gives an interesting account of the rise, progress, and decline of commerce in Holland. Its decline he attributes to two causes—the growth of English and French commerce after they had turned from war to peace, and the heavy taxation imposed in Holland in order to maintain her freedom.

† There was still in existence a "progressive duty" of 10*s.* on every 1080 words, except the first, in deeds, &c. "I can scarcely," said Mr. Lowe, "imagine any operation in which the human intellect can be more unprofitably employed than in counting those 1080 words."

‡ See *I. 123.*

tion, had been made in 1858, 1860, 1864, and 1865; but the stamp laws were still innumerable, complicated, antiquated and burdensome. Mr. Lowe now consolidated, simplified and reformed them. Excessive duties were reduced; the progressive duty on parchment was abolished; the distinction between foreign and inland bills of exchange disappeared; other duties were simplified and more fairly adjusted. The consolidation thus carried through, unlike the constant "consolidations" of the end of the eighteenth and beginning of the nineteenth centuries, which under guise of abolition always implied imposition at a higher rate, combined relief as well as convenience to the taxpayer. The loss to the revenue from these changes would, it was estimated, amount to £200,000 a year, of which £50,000 would fall on 1870. But so successful was the reform of the stamp duty, combined as it was with increasing prosperity, that by 1872 the yield instead of being £200,000 less, was £600,000 more than before the change—an improvement which has been, however, only partially maintained in succeeding years. The receipts from what may be called the business-turnover, deeds, bills of exchange, receipts, drafts, and bankers' notes, amounted in 1869 to about £3,100,000, and by 1872, an active and therefore very productive year, had risen to £3,750,000. In 1886 the receipts were the same as in 1872, having gradually diminished from the £3,900,000 to which they reached in 1880—one among the many indications of the depression of trade from which the country is now suffering.*

These changes, including the addition to the debt-charge, reduced the surplus by over half a million, but left nearly four millions still available for further remissions of taxation. The remaining penny of income tax imposed on account of the Abyssinian war was, of course, remitted. The other proposal of the Budget had been also anticipated. Mr. Bright, then President of the Board of Trade, and, next to his chief, the most notable member of the Cabinet, had a few weeks before delivered a speech

* The falling off has been chiefly in the receipts from bills of exchange, &c., which reached £1,127,000 in 1873, and in 1886 only amounted to £765,000; a falling off attributed, however, by the Commissioners of Inland Revenue, very much to the transaction of financial business by telegram instead of by bills. The receipts from deeds, &c., have kept at about the same figure, two millions; though, for a time, chiefly in consequence of the depreciation in the value of securities, they showed a diminution. The receipts from the "penny taxation" have ever continued to increase.

in which he had strongly advocated "a free breakfast-table,"* and the public and the trade had been justified in assuming that, with a large surplus forthcoming, tea or sugar—and probably the latter—would receive some further measure of relief. The penny of income tax involved an immediate loss of £1,250,000; and as much of the rest of the surplus as could be spared was to be applied to a large reduction on the sugar duties, which were to be reduced by one half.† Both fiscally and financially Mr. Lowe was certainly right to pile all the revenue he could spare on to the remission of taxation on a single article, and not to divide his favours; to choose the sugar duty alone, and not to attempt reductions both on tea and on sugar.‡

In proposing the reduction, the Chancellor of the Exchequer announced that in order to free the trade from the evil effect of anticipations of further alterations, he intended to "make a good sweeping change once for all, and then let sugar have a rest . . . I wish it to be clearly understood," said he, "that in making this proposal I am not preparing the way for either further reduction or for abolition, but that I have gone as far as I intend." The declaration was made in good faith, but it was as vain and as futile as had been a similar declaration of Mr. Gladstone's in 1863.‖ Just as the expansion of revenue then, had, two years later, burst the bonds of Mr. Gladstone's resolve, so likewise an even greater elasticity of revenue soon forced the hand of Mr. Lowe, and the reduction of 1870 was followed first by that of 1873, and then by the final abolition of the sugar duty in 1874.

The revenue from the sugar duty had amounted in 1869 to nearly 5½ millions, and a reduction of duty by one half, would involve a gross loss of revenue of about 2¾ millions. The expected loss, after allowing for increased consumption, was put at £2,350,000, the ultimate loss only came to about £2,130,000. The penny of income tax would cost in a whole year £1,500,000, and in the current year £1,250,000. The total proposed remis-

* At Birmingham, Jan. 11, 1870. See *Public Addresses*, p. 185. He had advocated a "free breakfast" table, the abolition of the heavy duties upon tea, coffee, and sugar, at Edinburgh in Nov., 1868 (p. 136).

† The reduction was from 12*s.* 6*d.* to 6*s.* on refined; from 11*s.* 8*d.* to 5*s.* 8*d.* on first class; from 10*s.* 6*d.* to 5*s.* 3*d.* on second class (standard) down to 1*s.* 9*d.* from 3*s.* 6*d.* on the lowest class. See *I. 325.*

‡ See *I. 302.*

‖ See *I. 337.*

sions for 1870 (including that on postage) came to nearly £3,900,000 with about half a million additional to come into force in 1871. The estimated revenue for 1870 was thus reduced to £67,634,000, the expenditure, on account of the increased debt-charge, had been raised to £67,300,000, and a surplus of about £330,000 was left, and this was to be carried forward.

# CHAPTER XXIV.

LOWE—ADVERSITY.

1871.

The whole political interest of the latter half of the year 1870 centred in the Franco-German war, which seemed to come like a thunderbolt out of a clear sky. On June 30th, the Prime Minister of France, M. Ollivier, declared that "The Government has no uneasiness whatever; at no epoch was the peace of Europe more assured, irritating questions nowhere exist." On July the fifth, Lord Granville (who had just succeeded Lord Clarendon at the Foreign Office) was, as he subsequently told the House of Lords,* informed by the experienced Under Secretary that "he had never, during his long experience, known so great a lull in foreign affairs, and that he was not aware of any important question that I should have to deal with." On that very same day the Spaniards determined to offer their crown to Prince Leopold of Hohenzollern. On July the fifteenth, war was declared between France and Prussia, and on the second of September was fought the battle of Sedan, which destroyed one Empire and created another; changed the balance of power in Europe; and left behind it feelings of revenge that must some day again deluge the Continent with blood.

In truth war had been inevitable since the battle of Sadowa; for the Austrian campaign had raised Prussia to a position which, in the eyes of French statesmen, was one of distinct menace to France. Directly after that war the Emperor had demanded of Prussia a rectification of frontier as some compensation to France for the aggrandisement of Prussia; but Bismarck had peremptorily refused to entertain the idea, and the demand

* *H.*, July 11, 1870.

was withdrawn. In 1867, a further complication arose. The King of Holland was also Grand Duke of Luxembourg (a territory guaranteed to him by the Great Powers); but the Dukedom formed a part of the old German Bund, and, as such, had for long been garrisoned by Prussian troops, on behalf of the German Confederation. After the break-up of the Bund in 1866, the Emperor endeavoured to induce the King of Holland to sell him the Duchy. To this Prussia strongly objected, and the negotiation fell through. Then France demanded, and this demand was justifiable enough, that the continued occupation of a strong fortress on her frontier by the newly formed and powerful North German Union (a very different affair from the old Federal occupation) should cease. The position looked serious, but at last—thanks chiefly to the initiative and tact of Lord Stanley, then at the Foreign Office—France and Prussia were induced to allow the matter to be referred to a Conference of the Powers, by which the question in dispute was satisfactorily settled. The fortress was demolished, and the territory neutralised *à perpétuité*, under a collective European guarantee.* The incident itself was thus satisfactorily closed; but an uneasy feeling had been caused by the evidence it had afforded of the very strained relations which existed between the Governments of France and of Prussia.

There was a further source of uneasiness. The Emperor had of late been striving to reconquer his lost popularity by conceding to the people more representative institutions and greater freedom of discussion; he was now beginning to discover that he had but raised a power he could not control, that his popularity was waning with his prestige, and that his hold over France was weakening day by day.† It was openly said that his diplomacy had, as Thiers put it, only resulted in placing France "between two unities—Italy and Germany—one which you made, and the other which you permitted." In the attempt to rectify his frontier he had received a rebuff from Prussia. Luxembourg had been neutralized instead of being annexed to France. Mexico had been ignominiously evacuated at the bidding of the United States, and

* May, 1867. This may be said to have been the first occasion in which the Concert of Europe was brought successfully into play. Diplomacy had, as the Emperor said, "instead of following a war and confining itself to sanctioning its results . . succeeded in anticipating it and in preserving the benefits of peace."

† At the election of 1868 the numbers of the Opposition rose to 120.

the puppet, Maximilian, left to his fate.* Rome (to please the clericals) had been reoccupied by French troops. France herself was groaning under heavy taxation, and the demand for recruits for the army was being increased. It was feared that the Emperor, whose failing health and weakening powers of mind were noticed by so many observers at the time, and of whom, in his best days, it was well said, that "he *wills* far less often than he *must*," would soon be driven into an attempt to consolidate his Empire by another great war.

In 1866 he had spoken ominously of his detestation of the Treaties of 1815.† In 1867 he had declared that the French army was to be "organized in such a manner as to be invulnerable . . for the influence of a nation depends upon the number of men she is able to put into the field." In 1868 he re-introduced and passed a bill greatly extending conscription, and vastly increasing his available forces.‡ These alarms the Emperor endeavoured to allay by pacific speeches in the country and to the Chambers. But if the Empire was peace, why this new "impost of blood?" If no war were contemplated, why all this talk of chassepôts, of mitrailleuses, of the glories of the First Empire, and of the invincibility of the French? There were, as Lord Stanley said in 1867,‖ "a hundred reasons why France and Prussia should remain at peace, and not one why they should go to war." But irritation and jealousy are not governed by the laws of logic, and mutterings of the coming storm became ever louder and more frequent. Nevertheless, as the year 1869 wore away without an actual outbreak of hostilities, a belief was

* The French troops finally quitted Mexico in March 1867; by May the Emperor Maximilian was captured and soon afterwards shot as a usurper and filibuster; and after four years of French intervention Juarez again entered Mexico as President of the Republic.

† In September, 1866, under cover of a letter addressed by the Minister of the Interior to the French representatives abroad, he had said that "Public opinion in France has been excited; it wavers doubtfully between joy at seeing the Treaties of 1815 destroyed, and fear lest the power of Prussia should assume excessive proportions; between a desire for the preservation of peace and the hope of obtaining, by war, territorial extension."

‡ M. Rouher, the Prime Minister, in speaking on the proposed Army Bill, which was to introduce practically universal conscription, said that the policy of France was not one of war, nor of annexation, but of "watchfulness." The Army Bill, added he, was "France placing her hand on the hilt of her sword in the midst of prosperity and peace." The Bill met with so much opposition that it was withdrawn for the year, but was re-introduced in an amended form in 1868.

‖ *H.*, June 14th, 1867.

beginning to spring up that, after all, the war might be indefinitely postponed; when the question of the Spanish Succession—an ominous term for Europe—arose to shatter all those hopes.

In September, 1868, the Spaniards had deposed Isabella, their Bourbon Queen, and a Provisional Government had been constituted until such time as the people, by universal suffrage, should have decided how they desired in the future to be governed. In January, 1869, the nation, by a very large majority, declared for a constitutional monarchy. The Crown was offered first to one Prince and then to another, but refused. At last, in the beginning of July, 1870, the Spaniards pitched upon a Hohenzollern. He was a connection indeed of the King of Prussia, but so distant that seven centuries had elapsed since they had had a common ancestor. However, the susceptibilities of France were aroused, and she protested against the nomination. The King of Prussia advised its withdrawal, and the dispute seemed settled, when the French Government further insisted that the King of Prussia should promise that under no circumstances would he admit the propriety of Prince Leopold assuming the Crown of Spain. This demand was refused; and a supposed insult by the King of Prussia to the special envoy of France followed. This was enough; both nations were ready to spring to arms, and war began.

The Emperor had founded his hopes of success on three things:—He believed that his army was ready down to the last button on their gaiters; he believed that his soldiers were armed with a breechloader far superior to that of the Prussians, and he had enormous faith in the destructive effects of his "mitrailleuse"; and, beyond all, he was firmly convinced that the Southern German States detested Prussia, and would rally to his side,—nay he had hopes even of Austrian co-operation. But if the gaiters were ready, nothing else was. The chassepot, in the hands of the French soldier, led only to wild and ineffective firing; the mitrailleuse, deadly enough, was no match for German generalship and German steadfastness. Austria remained strictly neutral; and the South German States, on the instant of the declaration of war, threw themselves heart and soul into the contest on the side of Prussia. France was hopelessly out-

numbered and out-manœuvred, and never after the very beginning had any chance of success. From the opening operations in July, 1870, till the final capitulation of Paris in January, 1871—the siege had lasted since the middle of September—the war went on with never-varying success. As far as French military power was concerned, it was over in six weeks. But the conquest of the Emperor and his armies had, it was found, to be followed by the conquest of the French people; and many weary months were spent, many valuable lives were lost, before France would admit her defeat, and agree to the terms proposed by her enemy.

The Emperor had staked his empire on the fortunes of war, and he had lost. Henceforth he disappeared from history; his career, checkered though scarcely great, had come to an end, and he died a few months later, a broken-down old man, in an English country village. The Empire was followed by a Republic. But it was some years after the fall of Thiers in 1877, before official intrigues for the restoration of Monarchy came to an end. At last, in 1877, the question of "*Ou se soumettre, ou se démettre*" was placed fairly and squarely before the Monarchical President, and he chose the former alternative. Since that time the Republic, though in many ways unstable, with its groups and its jealousies, with constant Ministerial changes, and, since the death of Gambetta, producing no man of mark, has become fairly established, and has defied all comers. The Orleanists are without a numerical party, the Bonapartists are handicapped by Prince Napoleon, and any fresh adventurer will probably find it no easy task to establish a Dictatorship.

To return to the war. England's treaty engagements to Belgium, and the feeling that the disappearance of her ally would be a calamity to Europe and an injury to England, caused immediate apprehensions to arise—apprehensions which were vastly increased by the publication,* a few days after the outbreak of war, of the draft, drawn up in 1867, of a proposed Secret Treaty between Prussia and France. According to its terms, France was to be permitted, if she chose, to acquire Luxembourg; and if the Emperor of the French "should be

* In the *Times*, July 25, 1870.

led by circumstances to cause his troops to enter Belgium, or to conquer it," Germany was to help her by force of arms against any country who, "in that eventuality, declared war:" on the other hand, the Emperor was to raise no opposition to the unity of North and South Germany. Both France and Prussia, when confronted with the evidence of their perfidy, disclaimed the responsibility of the initiative. It matters little, however, which was the greater sinner of the two; that such a proposal could for a moment have been entertained between them, was enough to condemn the morality of both Governments.

A vote of credit for two millions was at once asked for, and granted, in order that the country might be placed in a position to fulfil, if necessary, her treaty engagements.* The Army was increased by 20,000; the Navy was strengthened; the armaments of the forts were hurried on. The forts, begun in such hot haste in 1860, were now, ten years later, when real necessity seemed likely to arise, neither finished nor armed. It was, seemingly, a case of Lord Chatham and Sir Richard Strahan over again: the forts were waiting for their guns, the armaments were delayed for the completion of the forts.† As to the Army, the regulars were indeed armed with breechloaders; but, though it was now a long cry to 1866, only a portion of the Militia, and none of the Volunteers, were so armed. The War Minister congratulated himself on the fact "that the controversy with regard to the Martini-Henry was just approaching its solution," but, nevertheless, when war was nearly on us, the antiquated "Snider" was still the only weapon in the hands of our soldiers.‡ These little misadventures apart, the Army was in a good state, the reserves really effective; and though the total number of the regular forces was smaller than it had been a year or two previously, there was, in consequence of the new Colonial policy, a larger force available at home than almost ever before;‖ and the same was the case with the fleet.

* *H.*, August 1 and 2, 1870. † See *H.*, August 1, 1870.

‡ Cardwell, *H.*, August 1, 1870.

‖ In 1862 (according to Mr. Cardwell, *Ib.*), when the "Trent" affair occurred, the regulars in the United Kingdom (exclusive of dépôt) numbered 74,400, and the "pensioner" reserve, 14,700. In 1870 the numbers were respectively 78,500 and 41,000, and the reserves were far more efficient. On the other hand, in 1862 the militia numbered 109,000, and in 1870 (exclusive of reserve) only 65,000 men. The Volunteers in 1862 numbered 140,000, in 1870, 168,000.

There was fortunately no necessity for recourse to arms. England was successful in inducing Prussia and France to negotiate with her a special temporary Treaty, to remain in force during the continuance of the war. This treaty, which involved England in no new guarantee, only emphasizing that to which she had already placed her hand,* was to the effect that, in the event of the armies of either belligerent violating the neutrality of Belgium, Great Britain would co-operate with the other in defending that neutrality; she not engaging, however, to take part in any of the general operations of the war. In her position as a neutral, England was roundly abused by both belligerents; and once or twice some unpleasant questions arose between herself and Germany, which were, however, amicably settled.

Another European complication soon arose. In October, 1870, Prince Gortschakoff—choosing a time when Paris was being besieged, France prostrate, and Germany fully engaged—addressed, on behalf of the Russian Government, a despatch to the Great Powers, stating that Russia no longer recognised the obligations of the Treaty of Paris of 1856 respecting the neutrality of the Black Sea. Lord Granville, on behalf of the English Government, very fitly replied, that if any State had a right of itself to annul a treaty, or any part of it, without the assent of the co-signatories, "the result would be the entire destruction of all treaties." After further correspondence and negotiation, Bismarck suggested a Conference of the Powers, to be held, to use Lord Granville's term, "without foregone conclusions." The Conference met in the early days of 1871; and, at the first meeting, on the motion of the English representative, a protocol was signed, which declared that "it is an essential principle of the law of nations that no Power can liberate itself from the

* Treaty signed August 9, 1870. In view of a possible and probable war between France and Germany, English treaty engagements towards Belgium have again of late assumed a far more serious aspect. It is stated that every inch of ground between Germany and France over which an attacking force could go, is commanded on either side by strong fortifications. France cannot get at Germany, nor Germany at France, except through Belgian territory, and in the event of war that territory, so it is said, must be violated. England, though looked upon as the chief guaranteeing Power, has fortunately no more actual responsibility in regard to Belgian territory than that of any of the other Great Powers; and it may be hoped that she will not again, as she did in 1870, propose to act, except in actual co-operation with them. See Sir Charles Dilke's abominably written but intensely interesting articles on *The Present Position of European Politics* (1887).

engagement of a treaty, or modify the stipulations thereof, unless with the consent of the contracting Powers by amicable arrangement." England having obtained this barren diplomatic victory, the enemy were left in possession of the field. The Treaty of Paris was torn up, and Russia was allowed to keep as many warships as she liked in the Black Sea. The fact, however, was, that the concession was unavoidable. To start with, Russia had much justification as to the matter, though not as to the manner, of her demand. And, secondly, none of the Powers had the least intention of going to war to maintain the integrity of the Treaty of Paris, more especially in regard to the clause in reference to the Black Sea, which it was generally understood had never been intended in 1856 to be more than a temporary arrangement.

The Franco-German war had its victims of every age, rank, and degree; among them, the strangest of all, was the English Chancellor of the Exchequer. The war raised the Belgian question. The Belgian question necessitated increased expenditure; while the general disturbance seemed to necessitate a cautious estimate of revenue. The two together rendered necessary the imposition of taxation; and the proposals made to meet the expected deficit were of such a character as to bring not only discredit but ridicule on Mr. Lowe's financial reputation.

The results of the year 1870 were on the whole not unsatisfactory. Of the vote of credit for £2,000,000, taken in August, £1,350,000 had been expended, leaving £650,000 unexpended, of which £100,000 was spent the following year and the balance surrendered in 1872.* In addition to the vote of credit there had been other unforeseen and special outlay, while some further changes of account had nominally swelled the expenditure. The Army expenditure was more than the estimate by £450,000, due partly to arrears of charges from former years, and partly to the extra expenditure which had been incurred in placing the country in a position of "armed neutrality"† before the vote of credit

* The total expenditure out of the vote of credit was divided as follows :—Army, £900,000, Navy, £550,000.

† Mr. Gladstone himself would not admit the term an "armed neutrality" as applicable to the position of the English Government. He preferred to call it—"a thing totally different"—"a secured neutrality, a neutrality backed and sustained by an adequate condition of defensive establishments." *H.*, Aug. 1, 1870.

had been demanded. The Navy showed an increase of £200,000, due however almost entirely to an alteration whereby the half-pay and retired pay were to be paid monthly instead of quarterly. In spite of these extra charges, the two Services showed, as we saw, both individually and together, the smallest expenditure since 1858. The total expenditure of the year amounted to £69,550,000.

No additional taxation had been imposed in the previous August to meet the vote of credit of two millions. It had been hoped and believed that the improving revenue would be sufficient to meet any charge that would fall on the financial year, a hope that had been amply fulfilled. The revenue had amounted to nearly £70,000,000, instead of to but the estimated £67,640,000; and, after meeting £1,350,000 of war expenditure, a surplus of £400,000 had been left.

It might well have been thought that all the wars, disturbances, and complications of the year, the possibility of England herself being dragged into the vortex, the Russian repudiation of treaty engagements, the difficulty which had arisen in regard to the American "indirect" claims, would have injured and depressed trade, and diminished consumption. But, on the contrary, the revenue, in spite of, partly perhaps in consequence of the war, had shown great improvement. Indeed, for a time, the position of England as a neutral State had, in many ways, benefited her money market and her trade. Paris being encircled with a band of iron, business transactions and capital more and more gravitated to London, and trade and commerce generally had not been so brisk for a long time.

But with 1870, said the Chancellor of the Exchequer—in this instance prophesying falsely—he was "turning his back on prosperity, for the prospects of the year before us by no means correspond with the results of its predecessors." The actual ordinary expenditure for 1870* (including the £470,000 for Courts of Chancery and Bankruptcy), had been £68,200,000, the estimate for 1871 was £72,300,000 (including a similar item of £155,000), an increase of no less than £4,100,000. The increase in the Civil Service estimates, some £900,000, was chiefly due, however, to the automatic services. The State outlay on education, in

* Budget Speech, *H.*, April 20, 1871.

consequence of the Education Act of 1870—proving how necessary the Act had been, and how well it was working—had risen from a million in 1868 to a million and a half for 1871.

The Navy estimates showed an increase of £300,000. But by far the largest portion of the increased expenditure—and it was this that crippled the finances, and necessitated increased taxation—was in the expenditure on the Army, which (including the new item for charge for "Purchase," £600,000) showed an increase of no less than £3,200,000. And this increase had arisen in spite of the fact, that both Army and Navy had been considerably advantaged by the expenditure out of the Vote of Credit, which had neither been shot away nor consumed. The war had in fact brought in its train, not only an immediate increase of 20,000 men in our army, but a permanent increase in the expenditure on the war services. Special liabilities had also been increased. There was to be a special outlay in arming the fortifications. The "Snider" was to give way to the "Martini Henry" rifle. The new system of reserves, the new system of organization, the abolition of purchase, all tended to increase expenditure.

The estimate of revenue was an extraordinarily cautious one. The past financial year had been seriously disturbed. But by the time that the Budget of 1871 was introduced, the actual war was over, the German Army had quitted Versailles, though fratricidal strife was still raging in Paris. The Black Sea question was disposed of. The *Alabama* claims were in a fair way towards a friendly settlement. And yet, though the future seemed bright, and though the past year had, in spite of the European disturbances, shown an elasticity of revenue of nearly two and a half millions, the Chancellor of the Exchequer estimated, not for an increase, but for an actual diminution of over half a million in the tax revenue.* "No sound financier," said Mr. Lowe, "who valued his reputation, would make the unprecedented receipts of last year his basis of calculation for the future." As taxation was to be imposed, some diminution in the apparently abnormal elasticity of the previous year might well be expected. But it

* After allowing for the reduction of revenue in 1871 due to the balance of the emissions of 1870.

was carrying caution to an unjustifiable, and in this case to a disastrous extreme to estimate—when all the signs of the times pointed to improved trade and increased consumption—for a diminution instead of for an increase.

This gross under-estimate of revenue was the cardinal error of the Budget, and Mr. Lowe must have afterwards bitterly regretted that he had not, as he well might have done, allowed himself to reckon on some considerable vitality of revenue. Too late the unexpected revenue came to his aid: his financial reputation had ere then been scattered to the winds; and, with its disappearance, a considerable blow had been given to the Government of which he was a member.

The total estimated expenditure for 1871 was £72,300,000; the estimated revenue was put at only £69,600,000: the deficiency to be provided amounted therefore to £2,700,000. Neither was this the worst. The next year would be in a still more parlous condition. Purchase would involve a considerably increased outlay; certain special receipts of 1871 would not be available in 1872;* in connection with their County Government Bill, the Government had promised, if it passed, to relinquish the house duty. Thus, neither for the present nor for future years was the outlook a very agreeable one.†

All idea of borrowing to meet the deficit for 1871 was indignantly scouted, and the Government would indeed have cut a sorry figure if, after all their professions of economy and of financial courage, they had, in their third year, been reduced to the expedient of borrowing in order to fill a casual void. "A little popularity," said the Chancellor of the Exchequer, "might be gained by borrowing instead of imposing taxation," but he could "imagine no popularity so cheaply or more discreditably gained." The discreditable nature of such borrowing is self-evident, but its

* A sum of £850,000 was received in 1871, due to savings on the Army and Navy grants for 1869 and 1870, which had gone in diminution of the Votes of Credit, but which did not actually come to hand until this year, when they were handed over to the Exchequer.

† Another possible financial burden loomed in the distance, though the Chancellor of the Exchequer was right in not mentioning it, as he would thereby have prejudiced the case against England. The Anglo-American Arbitration Commission was in process of formation. It was a foregone conclusion that England, if she went to arbitration, would be cast in some damages, but the amount was as yet of course unknown. See *II. 148.*

popularity is fortunately open to doubt. It is permitted to us to believe that popularity—permanent popularity—is more likely to be gained by the courageous imposition of necessary taxation, than by the cowardly expedient of attempting to shuffle off responsibility and liability by borrowing to meet a deficiency. A clear proof that this is so, was shown (I think) by the result of the financial proceedings of 1878 and the next two years. Scarcely anything, I believe, so much injured the Conservative cause, or was so effective a weapon in the hands of their opponents, at the General Election of 1880, as the fact that they had lacked the courage to impose taxation to meet their expenditure; that they had run up bills and not met them when due; that, to use the Harcourtian phrase, they had "carried on a policy of peace-with-honour, on tick."

Given the annual expenditure which the Government of the day deems necessary to maintain British honour and interests abroad, and the efficient working of the machine at home, together with a reasonable application of money to the purposes of debt, the nation desires that the revenue (except under most exceptional circumstances) shall be raised to the full amount required to meet that expenditure. A deficit at the end of the year is of course another matter altogether; an unexpected fall in the revenue, an unforeseen increase in the expenditure, may, on occasion, leave even the most careful and courageous of financiers with a deficit. But it is obviously poor statesmanship and feeble finance for a Government to be willing to sit down content with an uncovered deficiency at the beginning of the financial year. Mr. Lowe and Mr. Gladstone, to their credit be it said, never committed the financial sin of beginning the year with an uncovered deficit; where, on the estimate of expenditure and revenue, a deficiency appeared, it was at once filled by the imposition of additional taxation. "If," said Mr. Lowe, in 1871, "it is important to reduce a National Debt, one thing still more important comes before it, and that is, not to contract it. It is much better not to have a debt, than to have a debt and pay it off." *

The original Budget of 1871 contained several important

* Budget Speech, *H.*, April 20th, 1871.

proposals. The ways and means required were to be raised partly from direct, partly from indirect taxation; whatever happened, the whole burden was not to be thrown on the income tax alone. A tax on matches was to be introduced; the income tax was to be raised, and in the future to be levied by percentage instead of by pennies; the succession duty on land and houses was to be increased; the legacy duty on personal property was to be increased by raising the consanguinity scale on the nearest of kin; the distinction in the probate duty between testate and intestate estates was to be abolished.

One by one all these infants of the Chancellor of the Exchequer had to be thrown to the wolves. First went the match tax, then followed the other proposals, and the final Budget completely reversed the principle on which the first had been founded. The fiscal and financial reforms were dropped, the proportional imposition of direct and indirect taxation disappeared, and the whole weight of the burden was placed on the income tax.

As the Budget was thus turned topsy-turvy, and as none of the original proposals were carried through, they require but brief notice. On its merits, the proposal somewhat further to increase the succession duty was just and right. It is clear that, as the original intention and expectation of the revenue to be derived from the imposition of a succession duty on real property had been entirely falsified, and as the duty had produced infinitely less than had been expected, it was not unreasonable to propose to raise the tax.* The proposed abolition, in the case of the probate duty, of the distinction between testate and intestate estates, was just and right—the State has no business to fine the heirs for the remissness of the testator. From a fiscal point of view—as money was required, and as the legacy and succession duties were quite capable of bearing a heavier load—there was something to be said for the proposal to raise the scale of duty on the nearest of kin. But it was one which clearly went entirely contrary to public sentiment; everyone wishes to discourage bequests to distant relations or strangers. The general idea is that the nearest of kin has, what Mr. Gladstone once called, "a natural expectancy," and that it is hard that he should pay

* See *I. 119.*

a heavy tax for what he may fairly look upon as a right. But, as relationship recedes, the legatee, having presumably no legitimate claims, ought to think himself lucky at receiving anything, and he may well be called upon to let the Community share some of his good fortune.* The Chancellor of the Exchequer, however, true to his practice, while making his proposal, asserted that he himself desired to go further, and that, though he did not then intend to propose it, he would prefer equality for all degrees of sanguinity. Plainly, if the objectionable inch were now given, a still more objectionable ell would be afterwards demanded.

The proposal to raise the income tax by a varying percentage instead of by a system of so many pennies in the pound, was in itself not an unreasonable one. When first imposed, each penny of income tax only produced the very manageable sum of about three-quarters of a million; by 1871 it was producing over a million and a half a year. The tax could therefore only be altered when a considerable sum either was required or could be given away. But Mr. Lowe's proposal assumed two propositions, neither of which, though now proved by experience to be unquestionable, were in 1871 fully admitted. First, that the income tax was to remain a permanent feature in the national finance; and, secondly, that it was legitimate lightly to change the tax as occasion required. There still existed a lingering hope, which flickered up from time to time, not to be finally extinguished until 1874, that the income tax might sooner or later be dispensed with; there was still a feeling that the income tax should not be utilised and altered on every trivial occasion.

It was perfectly clear that the substitution of a percentage for the "penny" system would place in the hands of the Chancellor of the Exchequer an instrument of the nature of a Nasmyth hammer, as easily adjusted to crack a nut as to drive a pile. And to place the tax on such a basis that it would provide as easily for a deficiency of a few hundreds of thousands as of a few millions of pounds, would be to place the Finance Minister under a very

* "Singularly enough, I find that the able gentleman who has the superintendence of the Legacy and Probate Duties at the Board of Inland Revenue says that almost all his difficulties are with the people who pay 1 per cent.; while the people who are subject to the higher rates pay them with comparative cheerfulness."—Gladstone, Budget Speech, 1881.

great temptation whenever he wanted a sum of money, however small, to have recourse to the income tax, as the easiest and least unpopular form of levy. Indeed, the very occasion on which the proposal was made, foreshadowed the use to which a percentage income tax would be put. A penny of income tax would only produce about £1,525,000, or £425,000 less than the sum that, after his other changes of taxation, Mr. Lowe required; a twopenny income tax would produce £3,000,000, or £1,100,000 more than he required, and a 1½*d.* income tax could not be imposed, for that would be inconvenient and unprecedented. But by raising the 4*d.* of income tax, equivalent to £1 13*s.* 4*d.*, per £100, to a percentage of £2 4*s.* (equivalent to rather over 5*d.*) exactly the £1,950,000 required would be received.

It is pretty clear that, now-a-days, with the tax universally acknowledged to be a permanent one, and with the necessity of using it more and more as a makeweight, some reform is required in the "penny" system. Each penny produces now, not a million and a half only, but two millions, an unwieldy sum, nearly the whole of which is collected in the year. Even a halfpenny income tax now a days produces a good deal more than Peel's penny; and if we come to dealing in halfpence it is about as confusing as a percentage.* But Mr. Lowe was before his time, and Mr. Lowe was, as usual, injudicious in his mode of introducing his reform; and the House would consequently have none of it.

The match tax itself was somewhat of a financial curiosity—a proposal not only inexpedient but fiscally unsound; and one that came perilously near to the form of taxation in the dark ages—a tax on light and warmth.† The tax singled out for attack one

* A 1½*d.* income tax was imposed by Mr. Gladstone in the Autumn of 1882; this is the only time that the full penny has not been taken or given.

† The Chancellor of the Exchequer had perpetrated a classical pun, which he intended to print on his stamp match-box wrappers, "*Ex luce lucellum*"—"from light a little profit." Indeed it is not quite clear whether the tax originated the joke, or the joke the tax. It must have been to him a cause of real grief, when, in consequence of the House refusing to see his joke or to accept his tax, his punning wrappers, prepared at a cost to the Treasury of some hundreds of pounds, had to be consigned to the flames.

As a matter of antiquarian interest it may be mentioned that the tax of a halfpenny or a penny the box on matches, according to quality, was actually estimated to produce some £550,000 a year; the number of boxes of common matches annually consumed in England amounting to the extraordinary total of 560,000,000, and of wax-lights and fusees to 45,000,000.

particular industry. It constituted a burden of two hundred to five hundred per cent. on an article of prime necessity;* and on an article, moreover, which gave especial employment to numbers of the poorest classes.

In fact the Budget speech of 1871 was a curious mixture of sound and unsound finance, epigrammatically expressed and ingeniously argued. The Budget itself was courageous, but too ambitious. It attempted much, at the wrong time and in the wrong way. It attacked poverty, it attacked riches. It attacked the landed interest, the most powerful "interest" in the country: and there had been a change since the days of Sir R. Walpole, who once complained that "the country gentlemen were like sheep who quietly suffered themselves to be shorn and re-shorn; the moneyed men were like hogs which never failed to grunt and stir if even a bristle were touched." It proposed, in the case of the income tax, to substitute an arithmetical puzzle for the straightforward penny in the pound. Its legacy proposals ran counter, so people thought, to the cherished theory that blood is thicker than water.

Then the Chancellor of the Exchequer himself, by his uncompromising and injudicious attitude, did everything to court and nothing to disarm unpopularity and opposition. He was pugnacious where he should have been conciliatory. He indulged in wanton, and therefore foolish, attacks on divers "interests."† His economy had, it was thought, degenerated into niggardliness. Instead of refusing assistance to this or that object in a way that commended itself to the public, he was thought, by his mode of

* "On the wholesale price of £625 worth of the commonest matches," wrote Messrs. Bryant and May, "the duty will be £3,000, or nearly 500 per cent."

† Without the least provocation he dwelt on certain exemptions which existed in regard to certain taxes, amounting to some £2,100,000 a year on charitable funds, agricultural horses, waggons, &c.; and made it clear to alarmed and irate "interests" that their privileges were only reprieved, and reprieved from no good will or indulgent feeling, on the part of the Chancellor of the Exchequer. "At this moment," said he, "we are violating that principle (of equality) in the most flagrant manner, because in our taxation there are the strongest and most sweeping exemptions which deprive the public of a great deal of money merely for the benefit of a particular class. For myself, I say boldly that I know of no proper exemption from taxes except in those cases where the taxes are not worth collecting. All persons should be taxed, each according to his ability, and no exemptions ought to be allowed unless the public would be the losers by the taxation." (H., April 20, 1871.) Mr. Lowe was like another spoken of by Cardinal Newman, "who has ever spoken too much rather than too little; who would have saved himself many a scrape, if he had been wise enough to hold his tongue." *Apologia pro Vita Sua*, p. 14.

refusal, often to add insult to injury. The Chancellor of the Exchequer had, indeed, brought on himself the curse of unpopularity. In the House of Commons, the personal popularity or unpopularity of the member in charge of a measure has an influence—an undue influence—on its fate, and this idiosyncrasy of the House was clearly demonstrated in the case of the unfortunate Budget of 1871. "It is not given to man," a wise writer has said, "to tax and be loved." Mr. Lowe had somehow or other, even before it came to taxing, lost the affection of his fellow-men, and now he had to tax.

Each portion of the Budget had its own opponents, and the adversaries were welded into one harmonious whole by a common sentiment of cordial dislike to its originator. Many—especially those who were now to be taxed—were convinced that it could not be sound finance to have given away four millions of revenue one year and to have to impose them the next. It was disappointing to be taxed by an economical Liberal Government, from which remissions and not increased taxation had been expected. It was annoying to be taxed at all; it was especially aggravating to be taxed by Mr. Lowe. Thus the Budget as a whole never had a fair chance, nor received impartial consideration; and it resulted in the greatest financial fiasco of modern times. Althorp in 1831, Russell in 1848, had each suffered provoking rebuffs, but something of their original Budgets was left. The Conservative Government in 1852, the Liberal Government in 1885, were defeated on their Budgets, and resigned. But probably no Budget ever has been, or ever will be, so completely altered out of all recognition as was that of 1871, without any talk arising of Governmental or Departmental resignation.

On the actual night of the Budget the match tax was affirmed by a majority of 201 to 44, and the second reading was carried the following night by 113 to 51. Barren victories these. The Budget had been introduced on a Thursday, and on the following Monday a somewhat disorderly procession of squalid match-makers, chiefly boys and girls, invaded the precincts of the House of Commons. The same evening the Government escaped defeat by a small majority, and only by treating the motion as one of "want of confidence," on a resolution hostile to the Budget, and which affirmed that the "additional taxation pro-

posed by the Government would entail burdens on the people which were not justified by existing circumstances." The following day Mr. Disraeli gave notice that he would move "that the financial propositions of the Government are not satisfactory, and it is expedient that Her Majesty's Government should reconsider them." The agitation, the procession, and the division, had determined the Cabinet to withdraw the objectionable proposal. So, on Mr. Disraeli's resuming his seat after giving his notice, the Chancellor of the Exchequer rose and announced that the Government, with regret, had decided to drop the proposed match tax, but that "the other resolutions would be proceeded with on Thursday next." Many however of the habitual supporters of the Government gave it to be understood that the dropping of the match tax had by no means disarmed their hostility to the Budget; and the regular Opposition, of course, having the Government on the hip, were not, if they could help it, going to let them off without a fall. The Cabinet had to make a virtue of necessity, and to throw over their Chancellor of the Exchequer. And when the Thursday arrived—just a week after the original introduction of the Budget—the Prime Minister himself, on behalf of the Government, sacrificed every one of the remaining proposals of the original Budget, and announced that recourse would be had to the sweet simplicity of a twopenny income tax in order to fill the void. "The plan of computing the income tax by percentage," added Mr. Gladstone gravely, "will stand over for an impartial expression of public opinion."

That the imposition alone of a twopenny income tax should have been the result of all this topsy-turveydom, was certainly most unsatisfactory. No party or section—especially in view of the large remissions of indirect taxation which had lately been given—desired to see the whole of the additional taxation of the year raised by that means.* And yet there was really no choice; after the rejection of the other proposals, it was that or nothing, and a twopenny income tax was considerably better than a deficit.

* The proposal was opposed by Mr. Disraeli. Mr. Gladstone and Mr. Lowe both expressed equally strong aversion to the course into which they had been forced. But there was no help for it, and the 2*d.* of income tax was affirmed by a vote of 335 to 250.

The estimated deficiency was £2,713,000. The original proposals would have imposed in the year £2,800,000 of taxation, leaving a tiny surplus of £87,000. The change to a twopenny income tax gave an estimated yield of £2,720,000 of additional revenue in the year, with £400,000 for the next, and produced an absolute equilibrium between revenue and expenditure.

The Chancellor of the Exchequer was to a large extent the architect of his own ruin, but he entirely refused to admit the badness of his Budget. He was pugnacious in the defence of his proposals, continually declaring that posterity would do him justice; and, though a scapegoat, he distinctly refused to go out into the wilderness. Indeed, he had been unfortunate beyond his deserts. Somewhat prophetically he had himself pointed out in his Budget speech of 1871—before the storm of abuse broke round his devoted head—that a Chancellor of the Exchequer at one time "gets very undeserved credit and applause" for the economical labours of his colleagues. "They rise early, they sit up late, and they know no rest, in order to save money for the public; and the Chancellor of the Exchequer, who has had only a very small share in their labour, comes down once a year like a benignant fairy and scatters blessings on the land." But at another time, though only one among a number concerned in the increased expenditure, the whole weight of the discredit falls upon him, and he must accept censure perhaps undeserved. "The Duke of Cumberland," said Mr. Lowe, "always said that he had been most unjustly praised for his victory at Culloden, and most unjustly depreciated for his capitulation at Closterseven." So in this case,—at the beginning of his financial career, Mr. Lowe had received an undue meed of praise for the economies of his colleagues, and the success of his own proposals; and now he was unduly blamed for the increased expenditure which had been incurred, and for the ill-success of the financial proposals that he had made.

The Budget had, in every way, a bad start. It was not only the Chancellor of the Exchequer—though he bore the chief brunt of the public displeasure—who was unpopular at the moment; by 1871 the whole Government were already under a cloud. How were the mighty fallen! The years 1869 and 1870 had been

periods of intense and successful legislative activity. The Irish Church had been disestablished; the Irish Land Act had been carried. The Education Act had been passed. Economy had prevailed, and Administrative Reform had been undertaken. The Government had been in high good favour. Then came a change. Nothing seemed to go right. Ireland, in spite of a couple of infallible remedies—Church and Land—was still perversely troublesome, and further coercion was applied.* Economy no longer appeared to prevail; and on the score of expenditure the Government stood condemned out of their own mouths.† The increased expenditure on the army and navy had justified the croakers, disgusted the economists, exasperated the peace party, and encouraged the Opposition. The large reductions of 1869 and 1870 were forgotten; public attention was concentrated on the augmentations of expenditure, which appeared the greater in consequence of the very reductions of the two previous years. The legislative power of the Government seemed exhausted. The point of Mr. Disraeli's scathing satire was only too apparent,‡—the ministers seemed indeed to be extinct volcanoes.

The "harum-scarum" Budget broke down. The Licensing Bill was unsuccessful, except in raising a hornet's nest about the

* With the curious optimism and persistency of English statesmen in dealing with the question of Ireland, the Chief Secretary to the Lord Lieutenant (Lord Hartington), when introducing in 1871 the Government proposal for the appointment of a secret committee to inquire into the state of Westmeath, preparatory to the introduction of another Coercion Bill, refused to confess in any way that the Government had not, by their Church and Land legislation, gone to the root of Irish discontent. "I beg to say," said he, "for myself, and for the Government, that I do not feel in the least that I appear here in the character of a penitent in a white sheet, or that the proposal which I now make involves any confession of failure on the part of the Government." (*H.*, February 27th, 1871.)

† On accepting the Presidency of the Board of Trade in Mr. Gladstone's Government, Mr. Bright had made a speech to his constituents in which he had spoken of "our large and, as I think, scandalous expenditure"—it then stood at about 70 millions. "Rely upon it," said he, "that so long as Parliament exacts from the industry of this people £70,000,000 a year, there is no power on earth that can raise your poor and suffering population from its present position. . . . . I tell you that no Government is deserving of the confidence and support of the people of this country, which cannot carry on the administration of the country in a manner which is consistent with the dignity and the security of the nation for a smaller sum than £70,000,000." In 1871 the estimated expenditure amounted to 72¼ millions. Speech at Birmingham, Dec. 21, 1868, republished in his *Public Addresses*, p. 165.

‡ "As I sat opposite the Treasury bench, the Ministers reminded me of one of those marine landscapes not very unusual on the coasts of South America. You behold a range of exhausted volcanoes. Not a flame flickers on a single pallid crest. But the situation is still dangerous. There are occasional earthquakes, and ever and anon the dark rumbling of the sea." Mr. Disraeli at Manchester, April 3rd, 1872, republished in *Selected Speeches of the Earl of Beaconsfield*, ii. 516.

ears of the Government. It went sufficiently far to unite against them the whole force of the licensed victuallers; it did not go far enough to attract the support of the "Alliance." The Ballot Bill was languidly received and successfully "obstructed."* The Army Bill, also persistently obstructed, had to be shorn of some of its most important provisions, giving an excuse for further obstruction, and for its ultimate suspension in the House of Lords. The arbitrary use—or, as many thought, the abuse—of the prerogatives of the Crown, the abolition of Purchase by Royal Warrant, leaving on the House of Lords the responsibility of passing a Compensation Bill for the Officers, was severally censured by Liberals as well as by Conservatives. The Local Government and Local Taxation Bills miscarried. Temple Bar was blocked at last; and the "mechanical majority" no longer worked without friction.

Every proposal of the Government, nay almost every speech of its members, what they did, as well as what they left undone, what they said as well as what they left unsaid, was steadily alienating their supporters. The Chancellor of the Exchequer and the First Commissioner of Works† between them accounted for a good deal of the unpopularity. The Home Secretary had mismanaged the Licensing Bill, in itself unpopular. The Prime Minister himself, by his double infraction of the spirit, if not of the letter of the law, in the "Collier Case," and in the matter of

* The "obstruction" directed against the Ballot Bill and on the Army Bill, was the beginning of the physical-force movement in the House of Commons, which has since necessitated the most stringent rules of procedure. Real obstruction—that is, parliamentary action with the sole object of delaying a measure—was first used as a mode of party warfare in 1871. In Committee on the Ballot Bill, as we read in *Annals of Our Time*, "As soon as Mr. Newdigate rose, a great many members on the Liberal side (in accordance with the tactics resolved upon at the meeting in the afternoon) immediately quitted the House, and the whole of the benches were soon empty. Only two or three Ministers on the Treasury bench, and three independent members behind them, were left to represent the party on the Speaker's right hand. In order to maintain the equilibrium of the assembly, a number of the Conservatives, amid general laughter, crossed to the deserted seats and delivered strong denunciations of the Ballot from the places usually occupied by advanced Radicals. The speaking was carried on exclusively by Conservatives, and provoked no reply" (p. 1017). Sir Roundell Palmer declared in the same session that "a course was taken, the like of which I never remember. Other great measures have been opposed without the minority endeavouring to baffle the majority by mere consumption of time."

† Mr. Darwin, commenting on Mr. Ayrton's conduct towards Sir J. Hooker, at Kew, in 1872:—"On my soul, it is enough to make one turn into an old honest Tory." *Life*, iii. 166.

the "Ewelme living," had given occasion to the enemy to blaspheme.

Nor was the foreign policy of the Government looked upon as having been particularly successful just at this time. The appearance of the "indirect" claims in connection with the Treaty of Washington—claims which the public supposed had been specially excluded from arbitration—made it seem as if the matter had been mismanaged, while it threatened to bring to an end the friendly feeling which had been springing up between the two countries. The abrogation of the Black Sea Treaty by Russia, in spite of the protests of the Government, had added to their discredit. This was indeed not a little illogical, seeing that no party or leader in this country, or in any other, dreamt for an instant of going to war to uphold the integrity of the Treaty of Paris. Under such circumstances, the fact that the London Conference—which threw an air of greater decency over the proceedings of Russia, and saved somewhat the pride of the other signatory Powers—took place at all, was, as far as it went, a triumph for the diplomacy of Lord Granville. But the continental press, for reasons of their own, had been quick to declare that the attitude of England during the Franco-German war, on the Black Sea, and the *Alabama* questions, had reduced her to the position of a third-rate Power; and rightly or wrongly, Englishmen felt that the position of England abroad was not what it had been, or what they should wish it to be. It is indeed evident that Ministers had, at this time, to go pretty far afield for consolation in this department, when we find the Prime Minister congratulating the country, not on the friendliness of its relations with Foreign Powers, but on the "equality of dissatisfaction" which had been created in the breasts of our two nearest neighbours.*

Again, the words and actions of certain members of the Government had given some colour to the assertion that they looked upon the Colonies somewhat in the light of a burden to the mother country, on India as a species of white elephant, and on Gibraltar as a station that might perhaps be relinquished without discredit.

* Mr. Gladstone, at the Mansion House, November 9th, 1870.

But the head and front of the offending was the Army expenditure and the Navy mismanagement. In 1870, a panic at her supposed unpreparedness for war had raged in England—a panic which military and naval authorities, as well as the ever-present "one who knows," assiduously fanned with their "Battles of Dorking" and Cassandra-like utterances. Those who had before denounced the "bloated armaments," now ridiculed the "skeleton battalions and attenuated squadrons;" a general idea seized the public mind, that England had "a fleet which could not swim, and an army which could not march."

In 1869 the Government had reduced the Army by 20,000 men. And now, behold, within eighteen months, the reduction heralded with such a flourish of trumpets had had to be abandoned, and in order to place England in a position to fulfil her treaty engagements, the 20,000 men had had to be re-voted.*

> "The King of France with twenty thousand men,
> First marched *down* the hill, and then marched up again."

Of two things, one, said the Opposition, if the subsequent increase of force was justifiable—and few were found to doubt it—then the original reduction of the army must have been rash and reckless. It had exposed England to danger, and even now her available forces were the worse by twenty thousand seasoned and valuable soldiers who had been replaced by raw recruits. In vain did the Government contend that when the reduction was made universal peace prevailed, and that the Franco-German war, by altering the map of Europe, had necessitated permanently larger armaments; or point out that as a matter of fact, many of the "disbanded veterans" had simply been passed into the reserve, and were available for service, in addition to the 20,000 men who had been added to the army.

And while the Government were blamed for the fact that they had changed their policy, their popularity was not enhanced by the fact that the change had been costly. And then was seen, as on so many other occasions, the great and distinct difference between willingness to incur expenditure and willingness to meet it. Much of the increased expenditure had been initiated and

* August 2nd, 1870.

incurred at a time of excitement and under considerable danger of war. But the nation, as Sidney Herbert once said, is constantly oscillating between panic and parsimony; and, when the time came to pay for that which had been done in 1870, the cause of anxiety had disappeared; and yet, to use the forcible indictment against himself, with which the Chancellor of the Exchequer had supplied his opponents, the proposal which was made was one virtually to impose taxes of the nature of war taxes at a time when the nation was not going to war, and there was no probability of its doing so. The country had clamoured for increased expenditure, and now when it was asked to "book up and pay," it was equally strong in its denunciations of increased taxation. Then, again, the abolition of Purchase had been all very well in the abstract, but when in the concrete it meant an expenditure of six or eight millions of hard cash, the supporters of the proposal became less enthusiastic, and its opponents waxed stronger and bolder.

The Navy also was under a cloud; the Admiralty had not, like the War Office, swelled their estimates; indeed, the chief complaint in their case was that they had not asked for enough, and had confined their additional demands to a beggarly two or three hundred thousand pounds. The administration of the navy, moreover, was apparently in a very unsatisfactory condition. The reforms, it was averred, had resulted in destruction without reconstruction; the First Lord was at loggerheads with the Chief Constructor;* the Secretary to the Admiralty had set all the underlings by the ears. It appeared that the new Admiralty Board was merely the phantom of Graham's old Board. No one seemed to know in what their duties consisted, or to whom or for what they were responsible. The First Lord had become "the centre round which the whole system revolved," and in consequence of this over-concentration of authority, his absence brought the machine almost to a deadlock; the administration of the Dockyards was in a most unsatisfactory state; in a word,

* There was wanting—so said the Report of the Select Committee of the House of Lords—"mutual confidence and friendly communications" between different officials, especially between the First Lord and the Controller, "indispensable to the proper management of a great public department." (Report of the Select Committee of the House of Lords on Admiralty Board, April, 1871. *P. P.* (180) of 1871.)

"Chaos reigned supreme." * Misfortunes occurred. The *Captain*, the first completed turret-ship, foundered—a loss asserted to be due to the fact that the constructor had not completely carried out the plans of the designer; the *Agincourt*, another iron-clad, ran aground; the *Megæra*, a troop-ship, had been sent to sea with 300 troops aboard, and with some of her plates so worn as to be no thicker than "a sheet of the *Times*," and had of course come to grief, happily without loss of life.†

Much of the responsibility for these losses was due rather to the old than to the new order of things; ‡ much of the confusion at the Admiralty was due to the temporary dislocation which a complete change of system so often entails. But for all misfortunes and mistakes which occur during their time, the Government in office is always, and naturally, held responsible. And anything lacking in the efficiency of the Navy always touches the nation in its tenderest chord. However economically disposed the country may be, it does not desire that the Admiralty Department should be conducted on a cheap and nasty system. Nothing (and rightly so) does a Government more harm than the idea that, in regard to the Navy, they are penny wise and pound foolish; and this the Liberal Government found to their cost. ‖

The general opinion—the opinion of the "man in the street"—was that in every way the Government of late had "made a mess of it;" and so they themselves seemed to think. During the six months of the recess of 1871, they lived—to use Disraeli's somewhat infelicitous phrase, "in a blaze of apology," and left no one any time to forget anything.**

* See report and evidence of Royal Commission (Lord Lawrence chairman), appointed in November, 1871, to inquire into the cause of the loss of Her Majesty's ship *Megæra* (C. 507, 1871), as well the already quoted Report and evidence of the Select Committee of the House of Lords.

† The Royal Commissioners stated that their "decided opinion" was that the *Megæra* "was an unsafe ship when she left Sheerness, and had probably been so for some years."

‡ The *Captain* had been laid down some years previously. The original neglect to inspect and condemn the *Megæra* also occurred long before 1871. See Report R. C.

‖ It is but fair to quote, as against the public opinion of the time, the following extract from the Report of the *Megæra* Royal Commission, p. xxiii.:—"We do not consider that there is any evidence to show that the (present) Admiralty ever cut down an estimate from a feeling of parsimony, or sacrificed efficiency from a desire to reduce expenditure."

** "Sir, although a considerable interval has elapsed since we had the honour of seeing you in that chair, yet the time appears to have passed somewhat rapidly, and

This unfortunate combination of circumstances, public and personal, home and foreign, tended greatly in 1870 and 1871 to diminish the influence and the popularity of the Government and of the Liberal party. Before long there was a certain revulsion of public opinion in their favour. Economy again prevailed; a surplus, and a timely remission of taxation—which covers a multitude of sins — successfully floated succeeding Budgets. Foreign affairs were quiescent; and again home legislation was active and satisfactory. But the Liberal Government never fully recovered their popularity, or their strength; and 1871 was for them the beginning of the end.

not to have exercised that softening influence of comparative oblivion over our controversies which is so salutary. I attribute this in a great degree to the new system adopted by Her Majesty's Ministers of vindicating their characters and their policy during the recess. We really have had no time to forget anything. Her Majesty's Ministers may be said during the last six months to have lived in a blaze of apology. Now, sir, I must protest against this new system, which does not permit us to return to our labours with renovated physical powers, or with our mental faculties refreshed, as we used to do in old days. I think that for a Ministerial vindication there is no place more fit than the floor of this House; and as for Ministerial explanations, they are of so ambiguous a nature, that even here they are difficult to apprehend, but in the recess I find them impossible." (Mr. Disraeli, on the Address, *H.*, Feb. 6th, 1872.)

It was this apologetic campaign that initiated that system of stumping the country throughout the recess, which up to then was rare, but which has since grown into an essential custom, and has added so much to the labours of members of Parliament.

# CHAPTER XXV.

## THE BOOM.

### 1872—74.

The marvellous expansion of trade, increase of profits and activity of business, which have made the short period from 1871 to 1874 historically interesting, were now in full swing. Since the end of 1868 confidence had been reviving, and capital, which had for a period been refused to any undertaking however sound, was now forthcoming for any proposal however speculative. The Suez Canal had been opened in the autumn of 1869; submarine telegraphy had made rapid strides; means of communication of all sorts had been improved; trade was increasing and extending all over the world; the exports and imports, the test of the foreign commerce of the country, showed an enormous and increasing expansion. From a total value of £522,000,000, or £17 1*s.* 3*d.* per head, in 1868, they quickly rose to £682,000,000, or £21 4*s.* 9*d.* per head, in 1873: the increased value due, no doubt, partly to increased prices. The railway traffic receipts —a test of the home trade of the country—were ever swelling; the revenue was making glad the heart of the Chancellor of the Exchequer by its leaps and bounds; prices on the Stock Exchange were rising all round.

"English capital," as Bagehot says,* "is by far the most locomotive of all capitals . . but it will not go abroad for the same percentage of return that will suffice at home." Attractive terms were now offered, and foreign companies of every kind were started. In 1869 and the next few years foreign loans, good, bad, and indifferent, were freely offered and greedily sub-

* *Economic Studies*, p. 117.

scribed for, without discrimination and without hesitation. The British public subscribed again, for the hundredth time, to regenerate Turkey; they lent capital in order to manure the world with Peruvian guano; and to create an interoceanic railway across the isthmus of Panama, under the patronage of the Honduras Government; and they advanced their money on the "security" of the non-existent revenues of such States as Costa Rica, Paraguay, and San Domingo. It was 1824 over again.

With the exception of the French indemnity loans,* a large portion of the proceeds of these advances,† or of the capital subscribed for new companies, was spent in the creation of railways, telegraphs, shipping, and kindred objects, the materials for which were to a very large extent ordered from England. A very brisk demand was created for British goods—a demand that could but be temporary, but which was treated as though it would be permanent. English capital found, for the time being, employment at a good rate of interest, while much of it came back again to England to purchase English goods; prices rose, profits were enormous, and the English manufacturer invested and reinvested his profits in the extension of his plant and business, on the supposition that good times, roaring trade, and monstrous profits would last for ever.

At first all went merry as a marriage bell. But the condition of things was purely artificial. The demand for goods on the part of Foreign States was due to capital, not to revenue expenditure. Such capital expenditure of necessity soon came to an end, and the demand for goods on the part of the borrowing States immediately ceased. Even where honest and solvent, these States had in many cases great difficulty in paying the interest on their loans, and had no balance of revenue to spare for further investment in public works; and by no means all of them that had so freely borrowed, were either honest or solvent. The

* The indemnity paid by France to Germany amounted to £200,000,000. The money was raised with extraordinary ease. In 1871 a loan of 80 millions was raised, and was easily placed. In July, 1872, a further loan of £140,000,000 was raised; and so eager were the public to take it up that no less than £1,720,000,000 of stock were subscribed for.

† Between 1867–73, Turkey borrowed largely; Egypt borrowed 32 millions; Peru, 24; Russia, 77; Hungary, 22; Brazil, 10; Chili, 5; and many other States smaller sums. The railway mileage in the States was doubled, and in other countries enormously extended. (Giffen, *Essays in Finance*, p. 113.)

"prosperous" times had been the harvest time for the promoter and loanmonger. There had been an unlimited supply of—

> " . . . all those flimsy schemes,
> For rolling in Pactolian streams,
> That cost our modern rogues so little trouble.
> . . . only propose to blow a bubble,
> And Lord! what hundreds will subscribe for soap."

In some cases the loan or the company had been "promoted" by those who, acting on the Horatian maxim—

> "Rem facias; rem,
> Si possis, recte; si non, quocunque modo rem."

—indulged the hope, though hardly the expectation, that the result of the expenditure might be remunerative. In too many cases the transaction had been simply fraudulent.*

The first result of these roaring times was, as already mentioned, a great and rapid rise in the price of all commodities. Iron went up, coal went up, and then wages went up.† The cost

* In 1875 a Select Committee was appointed to enquire into the mode in which some of the foreign loans had been floated and "placed." Its revelations as to the unblushing dishonesty of the loanmongers, and the extraordinary gullability of the public, were startling. The *Honduras* loans may be given as a specimen of the way in which certain Anglicised German firms and certain South American "Republics" placed their loans. A loan for £1,000,000, at 10 per cent., was issued in 1867 at 73½, for the alleged purpose of building an interoceanic railway. At first only £48,340 of the loan was taken up by the public. But by jobbing and creating a market, £630,000 of the stock was gradually sold to the public, of which, however, only £300,000 went towards the railway at all. In 1869 a further loan was issued in Paris. In 1870 another loan of £2,500,000 was issued at 80; the proceeds, according to the public account, were also to be applied to the purposes of the railway, whereas only £800,000 of it was ever intended to be so applied, and in the result practically none of this loan was so applied. The loan was placed, as far as it was placed at all, by means of fictitious dealings in the scrip on the Stock Exchange. Out of the proceeds of the whole of the loans of 1867, 1869 (Paris loan) and 1870, of which the total nominal capital was six millions, the contractors to the railway only received some £700,000; and the whole of the rest of the money received went into the pockets of the promoters and others, or was applied to the payment of the interest on the loans. In 1872, 15 millions additional was asked for in order to construct a "ship railway" across Honduras. But as no one on this occasion was fool enough to subscribe, the loan was withdrawn. Not a sixpence was ever provided by Honduras for the service of any of the loans, and in 1872 default was made.

† This was the order in which, according to the Select Committee on Coal Supply, the increase took place (*P. P.* 313 of 1873). The price of best house coal (at the wharf) averaged 18*s.* 6*d.* between 1868 70, in 1872 the average was 24*s.* 11*d.*, and in 1873, 32*s.* 6*d.*, and at times very much higher (p. ix). See *I. 26.* In 1871 Cleveland pig iron averaged £2 14*s.* 3*d.*, in 1873 the average rose to £5 3*s.* 4*d.*, by 1875 it was down again to £2 14*s.* Bessemer hematite pig iron was at £3 12*s.* 6*d.* in 1870, rose to £8 10*s.* in 1873, and had by 1876 fallen to £3 6*s.* 10*d.* (C. 3051, 1881.) For the rise that took place in the rate of wages in the manufacturing industries between 1871 and 1876, see Phillips Bevan's *The Industrial Classes* (1877).

of production rapidly rose; the increased cost of production checked the demand, and trade began to fail. The high prices and great profits led to many disputes between labour and capital. The workmen demanded higher and ever higher wages. At first, while profits were rising, the demands were generally conceded, but, as trade began to decline and profits to fall, the further demands were refused, and reductions of wages began to be proposed by the masters. Disputes, strikes, and lock-outs followed, and a sensitive and diminishing trade received a further shock.*

The first note of trouble came from abroad. Speculation and over-trading had not been confined to England, but had been rampant on the Continent and in the States. In 1873, there came financial panics in Vienna and Berlin, and a general break-down in the States. The rate of discount fluctuated wildly,† and business became paralysed, England being, however, the last to feel the shock. Many foreign States began to find themselves in financial difficulties. In 1875 Turkey ceased to pay interest on her enormous debt, and it was thought that Egypt would soon follow suit; while other smaller States actually repudiated. The investigations of the Foreign Loans Committee of 1875 gave another shock to credit, and helped to bring all foreign loans still further into disrepute, and to make the British public for the time forswear lending. The price of all "securities," speculative or otherwise, fell, and works already begun had, in too many cases, to be abandoned through the impossibility of getting further capital wherewith to finish them. Where the collapse of credit was complete, the British trader suffered doubly. The expenditure of capital from abroad came to an end—even in the case of the most fraudulent loans a portion had (for decency's sake and in order temporarily to maintain

* In 1875 took place the fatal strikes in the South Wales colliery districts, from which the coal trade of South Wales has never recovered. In 1874, for the first time in history, the agricultural labourers struck. The strike was organised by Joseph Arch, who is described in the Annual Register of 1872 as "An agitator with a considerable command of language" (p. 129). It resulted in a lock-out on the part of the farmers. After a prolonged resistance on the part of the men, and great loss of money on the part of the Union and the men themselves, the farmers were to a very large extent victorious, and the men had to resume work, practically on the same terms against which they had originally struck.

† On November 7th, 1873, the Bank rate of discount was raised to 9 per cent.

credit) always been expended on the professed object in view,—and the home customer, the investor, was also crippled.* The great depreciation that took place in the value of investments impoverished the capitalists. Bad harvests came to injure disastrously the agricultural interest. Soon arose the Eastern Question—and where active diplomacy begins trade stagnates.

By 1875 the downward turn had set in with considerable force, and it continued steadily for the next five or six years. Where before there had been great inflation, there was now great shrinkage; where before there had been an enormous demand for British goods at high prices, the demand was now lessened though the prices had fallen. Moreover, one result of the super-activity of the previous years had been to open up other countries and other industries in competition with England, and to help to bring about that over-production from which the world has hardly yet recovered. The prosperity had affected the whole world, the depression was equally widespread. The prosperity of the world had brought to England extraordinary prosperity, the depression of the world brought her extraordinary depression. The effect of the widespread ramification of British commerce had, as Mr. Lowe and Mr. Gladstone pointed out in 1871 and 1873, given to English trade a "solidity" it had never before possessed, and enabled it to resist mere local pressure.† But there is, it must be confessed, another side—and not such a bright one—to the question. If we gain when any other nation gains, we also lose when it loses.

* Mr. Giffen (*Essays in Finance*) estimates the depreciation in the value of the securities of Turkey, Egypt, and Peru alone, within a year after the Turkish collapse, at £150,000,000, and the "total destruction or suspension of income from securities" at a sum exceeding £20,000,000 a year. (*The Liquidations of* 1873-6.)

† "I will venture to say as the result of the observation for which at least I have had abundant opportunities, that not only have we witnessed a development in which our industry and commerce have experienced an extraordinary extension, but that extension has been attended with this peculiar feature, that along with it there has been a constant confirmation of the basis on which it stands. While it has become wider and larger, it has also become more firm and more solid. In years which many of us can remember, the disturbance of some great country, the loss of some particular market, the casual occurrence of a bad harvest, was enough at once to throw us into distress, at once to derange the balance of public income and expenditure, and at once to disturb the balance of our trade. But now, on the contrary, so largely have we established our relations, not with this country or with that—not with this market or with that—but with the whole human race, and with the wants of the whole human race, that the particular failure is lost in the comprehensiveness of the relations in which we stand to all the world."—Mr. Gladstone, at the Guildhall, Nov. 9th, 1873.

The "prosperous" time of 1871-4 to which many persons look back with longing eyes, was probably, on the whole, commercially disadvantageous to England. The prosperity was enormously exaggerated. It was the paradise of the few, the purgatory of the many, those with fixed incomes especially suffering. Profits in some trades, especially in the coal and iron trades, were enormous, and great fortunes were made; but much of this profit, being reinvested in the same business, was subsequently lost through the overproduction and the consequent fall of prices that ensued. Wages were high, but the cost of everything—food, clothing, and fuel—went up immensely. Lightly come, lightly go. There was little thrift or saving. The high wages so easily earned were of slight permanent advantage to the working classes. The actual production was not nearly so great as it subsequently became; it was only the inflated prices that made trade appear far larger than it really was. Trade itself was demoralized by the high prices and enormous profits, production was over stimulated, undue activity was followed by abnormal stagnation, and the last state was worse than the first.

The Budget speech of 1872 was "clear though concise," to use a characteristic expression once let fall by Mr. Gladstone; but it lacked altogether the sparkle and "go" of former days.* The Chancellor of the Exchequer was evidently sore and sick at heart at the reception that his Budget had met with the year before, which—as Lord Byron said of his wedding-day—he was not likely to "forget in a hurry,"† and he had apparently resolved not to waste any more witticisms on a perverse and thankless generation. For originality there was no scope, even if the Chancellor of the Exchequer had been inclined to venture again upon that thorny path. Though, indeed, as in this case it would have been remission and not imposition, his proposals would doubtless have been received with greater indulgence than in the previous year—it is imposition of taxation that draws the hottest fire of public criticism.

* Budget Speech, *H.*, March 25th, 1872.

† Jan. 2, 1817. "On this day two years I married. 'Whom the Lord loveth he chasteneth'—I shan't forget the day in a hurry." Moore's *Life and Letters of Byron*, vol. iii.

Neither the Budget nor the Speech excited any interest, and, in contrast to former years, when the financial discussions had been long and animated, there was this session but one financial debate of any moment, and that was spiritless. Indeed the finance of the year 1872 was of the dullest and simplest description. The two penn'orth of income tax imposed in the previous year was remitted; and a further abatement was given on the smaller incomes; the coffee duty was reduced, and that was all. The marked feature of the year was not its finance, but the astounding elasticity of the revenue, and the large surplus with which it began, and with which, in spite of the extensive remissions of taxation, it also ended. The increase of the tax revenue in 1871 over that of the previous year had reached nearly two millions * in spite of the increased burden of taxation entailed on it. In 1872, this time a year of remissions, there was a further increase in tax revenue, reaching the enormous sum of $4\frac{1}{4}$ millions; while that of 1873 again increased by a further 3 millions.

Economy—the basis of all good finance—had again been the rule in 1871, and made further progress in 1872. The realised surplus of 1871—expenditure £71,490,000, revenue £74,700,000—amounted to £3,210,000,† a sum exceeding the taxation imposed at the beginning of the financial year. This was sufficiently satisfactory as regards the past year; and, for the coming year, matters looked much brighter than they had appeared in the financial anticipations of the Budget of 1871. It had been then anticipated that 1872 would be worse off by two millions and a half than 1871, in consequence of lesser receipts and of increased charges. But Purchase, instead of £1,200,000, was to cost only £850,000;‡ and in consequence of the collapse of the Local Government Bill of the previous session, and the fact that it would not be again introduced this year, the house tax of £1,200,000 had been saved to the Treasury, instead of being

* After taking into account (as is always done in calculating the elasticity of the tax revenue of any particular year) the remissions given in 1870, and which came into force in 1871.

† See note as to Abyssinian War savings, *II. 120.*

‡ The prophecy in regard to the effects of Purchase, that "the officers and the Consolidated Fund would disappear together," had been falsified in regard to both. In 1871 only £340,000, instead of the anticipated £600,000, had been spent; and for 1872 only £850,000, instead of the originally anticipated £1,200,000, would be required.

handed over to the local authorities, as the Government had intended. Consequently the Exchequer was considerably better off than had been originally expected; while, in every other way, the outlook was infinitely more satisfactory than could have been anticipated twelve months previously.

The actual expenditure of 1871 showed a saving of about a million on the estimate; the estimate for 1872 showed a further reduction on the expenditure of 1871 of some half a million, and the actual expenditure was yet another half million less.* Excluding Purchase,† the army expenditure of 1872 came to £13,470,000, against an actual expenditure of the previous year of £14,980,000; a sum, though still exceeding by a million the expenditure of 1870 was a million and a half less than the expenditure of 1871. It really appeared as though the assertion of the Government that the enormous Army expenditure of 1871 had been due to temporary causes was coming true. The navy expenditure had not varied to anything like the same degree as that on the army. In 1870, it had amounted to £9,460,000. In 1871, it rose to £9,900,000, and in 1872 it was reduced again to £9,540,000.

The over-cautious estimate of revenue of the previous year had been justified on the ground that taxation was about to be imposed. Taxation was now about to be remitted, yet the Chancellor of the Exchequer could not shake off the "ludicrous lugubriousness" ‡ which had been to him the cause of so much misfortune. He adhered, both in this year and the next, almost childishly, to the old system of making the actual receipts from the taxes of the previous year the basis of estimate for the coming year. The customs revenue was taken at the exact figure of the year before; on the excise an increase of £20,000 only was expected.‖ The income tax, it was estimated, would show

* That is, exclusive of the Indian army charge, which, as already explained (*I. 285*), is entirely unconnected with the real expenditure of the United Kingdom. For some reason the Indian army expenditure in 1871 was only £544,000, while in 1872 it amounted to £996,000, a difference against 1872 of nearly half a million.

† The expenditure out of the loan for localization purposes was spread substantially over the years 1873 to 1879. (See *P. P.* 24 of 1887.)

‡ Mr. White, an annual financial critic of those days.—*H.*, March 25, 1872.

‖ The Budget of 1872 was introduced a few days before the actual close of the financial year, and so the realized receipts of the past year were partly an estimate. The Customs had, it was expected, realized £20,300,000; the estimate for the

an increase, but this was chiefly on account of arrears. The "business" receipts were to yield an additional £200,000. The Chancellor of the Exchequer did indeed vaguely allude to the probability of supplementary estimates to an amount of some four or five hundred thousand pounds, which might be met from increased revenue receipts. But this was not a business-like way of taking into account the increase of revenue. Moreover, an increase of four or five hundred thousand pounds, was a totally inadequate estimate of the natural growth of the revenue at such a time—as indeed was conclusively shown by the fact that in the result it amounted to ten times as much.

The estimated surplus—expenditure £71,300,000, revenue £74,900,000—was £3,600,000. The income tax, at a cost of £3,330,000 (for the year £2,720,000) was to be relieved of the twopence temporarily imposed the year before. In addition, the lowest class of income tax payers, "that class of persons who seem to have been singled out for taxation more than any other," were, as we have already seen,* to receive some relief by way of abatement; on the characteristic ground that it was "desirable that men should pay taxes, and in order to pay taxes they must live." The limit of abatement was extended from incomes of £200 to those of £300, the amount of abatement from £60 to £80; the loss of revenue involved would be £310,000. The number of persons affected by the existing abatements was 273,000, the additional number now relieved would be 167,000.

The duty on coffee, as well as on chicory—"sometimes," as the Chancellor of the Exchequer said, "the handmaid, and sometimes the rival of coffee"—was to be further reduced by one-half.†

It was now twenty years since any reduction had been given on

coming year was £20,300,000. The excise was supposed to have realized £23,300,000; the estimate was for £23,320,000. The following year, 1873, this system of estimate was pushed to a still more ridiculous extreme, being carried down to the thousands of the yield. Customs had yielded £21,033,000; the estimate was for £21,033,000. Excise had yielded £25,785,000; the estimate was for £25,747,000, the difference being due to the remnant of the coffee duty reduction.

* See *I. 309 and II. 229.*

† Coffee (raw) from 28*s.* to 14*s.*, the customs duty on chicory from 26*s.* 6*d.* to 13*s.* 3*d.*, the excise duty from 24*s.* 3*d.* to 12*s.* 1*d.* On chicory there was, until 1833, neither customs nor excise duty. A small customs duty was imposed in that year, and in 1860 a still smaller excise duty; duties which, by 1863, were raised to the level of that on coffee. See *I. 205.*

the coffee duty, while an extra penny had been added during the Crimean war. It was clear that something was wrong with the coffee duty. While in one quarter of the globe coffee was "the exclusive beverage of a hundred millions of the human race," in England the consumption, never very great, had since 1854 (when it attained its maximum) dwindled year by year; and it seemed high time that a further attempt should be made by a reduction of duty to stimulate consumption.

Introduced into England about the middle of the seventeenth century, coffee had, by the middle of the eighteenth century,* become the favourite drink of fashion—had inspired politicians, poets, and wits, and had given its name to the "coffee house" and the "coffee room." † Under heavy taxation the consumption fell off, to revive under Pitt's reduction, while peace yet prevailed. Coffee was increasingly taxed during the war; and the heavy duties then imposed were reduced by one half in 1825, were again reduced in 1835, in 1842 and 1844, and lastly in 1851. The further reduction of duty made in 1872 was of no avail. The consumption of coffee per head, which in 1854 was 1.35 lbs., had by 1871 dwindled to 0.97; and though, in 1879, it touched a pound a head,‡ it had, by 1886, dropped to 0.86 lb., and this in spite of a persistent fall in price. A melancholy history. Clearly the high price has not been the chief factor in checking consumption. It is, in fact, partly the abiding remembrance of the nauseous taste of adulterative chicory,‖ partly the ineptitude of those English cooks, to whom the Frenchman once so bitingly referred as "Marquises de Brinvilliers—*sauf l'intention*," and partly the faint praise wherewith the doctors damn the beverage, that has ruined the British coffee trade.

* "They have in Turky a drink called coffee, made of a berry of the same name, as black as soot, and of a strong scent, but not aromatical, which they take, beaten into powder, in water as hot as they can drink it. This drink comforteth the brain and heart, and helpeth digestion."—*Bacon.* Quoted by Johnson in *Dict.*

† In 1675 an attempt was made by the Government to suppress the coffee houses, on the ground that "they nourished sedition, spread lies, and scandalised great men."

‡ According to the calculation of the Commissioners of Customs (C. 5183, 1887), the receipt from coffee in the last ten years should, on the basis of increased population, have risen from £203,000 to £224,000, whereas it had actually fallen to £194,000.

‖ In 1882 an Act was passed providing that if any substance is mixed with coffee, the name of that substance shall be printed on each packet in "letters of not less size than the largest letters" printed on the label.

The total remissions of taxation in 1872 amounted to an estimated sum of £3,880,000; of which £3,290,000 would come into force in the current year, leaving an estimated surplus of some £300,000. The actual expenditure of the year came to £70,700,000; the revenue—we have already spoken of its extraordinary vitality—amounted to £76,609,000, an increase of five millions and a half over the estimate. The whole of the remissions of taxation of the year had been recovered, and more than recovered. The realized surplus, instead of only amounting to £300,000, reached the enormous sum of £5,900,000.

This was not a bad start for the Budget of 1873, a Budget which was well called the "Prosperity Budget." While the realized surplus, 1872, had amounted to nearly six millions, there was for 1873 an estimated surplus of four and three quarter millions. The remissions on the year itself (including those taking effect from 1872) came to three and a quarter millions; and yet, with all this, a surplus of revenue of nearly five millions over the ordinary expenditure was realized at the end of the year. There was in fact a state of financial prosperity the like of which it is to be feared we shall never see again: a state of prosperity which has never been surpassed, and will probably never again be equalled.* Yet, in the midst of all this smiling plenty, the Chancellor of the Exchequer did not regain his old serene, if caustic, humour. He was pre-eminently the extinct volcano, the "used-up crater" of the Government. His Budget speech of 1873†—his last—rivalled in dulness even Mr. Ward Hunt's discourse of 1868.

The estimated ordinary expenditure for 1873 showed a considerable increase. The total was put at £71,871,000, an increase of £1,160,000 over that of the previous year. The Army was to exceed the expenditure of the previous year by £430,000; the Navy by £330,000; in all for the two services £760,000. Civil service showed an increase of £900,000; the Post Office service of £500,000; the Telegraph service of

* Taking 1872 and 1873 together, the gross amount of taxation of which the two years were relieved was 6¼ millions. The tax revenue in 1871 amounted to £64,840,000; in 1873 to £66,080,000, an actual increase of £1,240,000, which, added to the remissions, showed an increase of revenue in the two years 1872 and 1873 of no less than 7½ millions.

† Budget Speech, *H.*, April 7th, 1873.

£145,000. The result of the expenditure of the year was still less satisfactory. The ordinary expenditure exceeded the estimate for the first time since the Government had acceded to office, and the ultimate gross optional expenditure (including a deficiency voted in 1874) exceeded that of 1872 by over two millions, and that of 1869 by five and a half millions. The fact was that the very form the prosperity of the country had taken had told against economy. Provisions, iron, coal, clothing—almost everything that went to make up the expenditure of the Army and Navy—had rapidly and greatly risen in price.* Indeed, so much was this the case, that it was estimated that in the price of Army stores and articles of manufacture alone, there was, in 1873, an increased cost of no less than £400,000 or £500,000 over that of 1872—itself a year of high prices. Similarly, the Navy estimates, both in building and in repairs, had suffered much from the increased cost of coal and iron. Not only so, but the active state of the labour market, and the high rate of wages prevailing throughout the country, had so seriously affected recruiting for the Army that a further increase had had to be made in the rate and mode of pay;† while the rate of wages in the dockyards had had likewise to be raised.‡

The estimate of revenue, for 1873, was again, for the fifth time in succession, founded absolutely on the receipts of the previous year, without one sixpence of allowance for elasticity or increase; though the three millions of taxation remitted the previous year had come back, and more than come back, into the Treasury, and though the Chancellor of the Exchequer knew that he would be able to give away a further three millions this year. The estimated surplus—expenditure, £71,870,000; revenue, £76,620,000—amounted to four and three quarter millions. But some or most of this surplus was already bespoken.

* The estimates, said the Queen's Speech of 1873, "have been framed with a view to the efficiency and moderation of our establishments, under circumstances of inconvenience entailed by variations of an exceptional nature in the prices of some important commodities."

† The annual increase of cost for pay alone, since 1866, now amounted to some half million.

‡ Mr. Goschen (then First Lord of the Admiralty), speaking on the question of economy at one of his election meetings in 1874, declared that "the whole of the increase, where increase there is, is due to the increased price of labour and the increased price of material, which no Ministry could possibly avoid." (City, January 30th.)

The claim of the American Government against England for compensation for the damage done during the war by the Confederate Cruisers that had been building and allowed to escape from England,* had never been relinquished, and had been a subject of correspondence and controversy for ten years past. At first, Lord Russell, then Foreign Secretary, had altogether declined to admit the liability of England. Indeed, in earlier days, the feeling on the subject was very different to that which it became later. In 1863, when Mr. Bright appealed to Lord Palmerston to come forward "with kindly words and generous acts" towards the Americans, the builder of the *Alabama* had, amidst the enthusiastic applause of the House, declared that he would rather be "handed down to posterity as the builder of a dozen Alabamas than as a man who applies himself deliberately to set class against class, and to cry up the institutions of another country."†

But by 1866 the temper of the nation had considerably changed for the better. Lord Stanley, when the Conservative Government came into office, recognising the danger of indefinitely keeping open a question that at any moment of difficulty or danger to England might be pressed by the States to a disagreeable conclusion; and realising that there was considerable cause of complaint on their side, offered to allow the claims in regard to the cruisers to be submitted to arbitration. But, by this time, the "claims" had become mixed up with further claims for damages against the English Government in respect of their alleged premature recognition of the South as belligerents, and these also, the American Government declared, must be submitted to arbitration. Lord Stanley contended—and unanswerably contended—that this matter was not, as in the case of the cruisers, a question of legal obligation of possible remissness, but a question of State policy, a question on which a State itself could and must be the sole judge of its own duty, and therefore one which could not be referred to any foreign power to decide. And this position was later consistently maintained by Lords Clarendon and Granville. Thereupon, in 1867, the American Government declined to continue the negotiations.

* See *I. 274.*

† *H.*, March 27, 1863.

In 1869 the question of arbitration was again revived, and the American envoy (Mr. Reverdy Johnson) and the English Foreign Minister (Lord Clarendon) agreed on certain terms of reference for arbitration. But the American Senate—dominated by the hot-headedness of Mr. Sumner—refused to ratify the agreement, and again the negotiations were broken off. They were resumed in 1871, and two English Commissioners, Lord de Grey (afterwards Lord Ripon) and Sir Stafford Northcote,* were despatched to America to carry them through. An agreement was come to as to the nature of the claims that were to be submitted to arbitration, and all seemed in a fair way towards a settlement, when suddenly the American Government brought forward their "indirect claims," which the English Government had fully understood to be finally waived. Compensation was claimed, not only for the actual damage done by the cruisers themselves, but for all indirect loss occasioned by diversion of trade and of shipping, increased cost of freights and insurance; nay, the very cost of the prolongation of the war itself, due it was alleged, to the existence and depredations of the cruisers, was now added. Such preposterous and indefinite claims as these would not for a moment be allowed; and the English Government altogether declined to enter on any arbitration until they were withdrawn. Again a deadlock ensued, and irritation arose on both sides of the Atlantic. After much further negotiation, the indirect claims were withdrawn, and the question of the liability for the actual damage done by the cruisers was, in 1872, submitted to the judgment of three potentates—the King of Italy, the President of the Swiss Republic, and the Emperor of Brazil—represented at a Conference at Geneva. After manifold sittings, the Conference decided that England had been responsible for the depredations of the *Alabama*, the *Florida*, and the *Shenandoah*, and assessed the damage done to American shipping through the carelessness of the English Government at fifteen millions and a half of dollars—£3,200,000.†

* See *I. 270, n.*

† The total American claim (exclusive of the "indirect claims" including interest, amounted to 45½ million of dollars, equal to £9,480,000. The actual sum awarded was in pounds sterling, at the then rate of exchange, £3,229,166 13*s.* 4*d.* The Court unanimously (though the English arbitrator protested against the amount of the damages awarded), found Great Britain to have been liable by negligence for the acts of the *Alabama*. By four to one (the English arbitrator dissenting) liable for the acts committed by the *Florida;* and by three to two (Italy and Great Britain

The sum was a large one to have to pay for the selfish and unpatriotic conduct of a firm, and for the action of a bygone Ministry. But the nation, as a whole, acquiesced in the award with commendable good sense and good feeling. It felt that, in regard to the *Alabama*, at least, its Executive had shown culpable remissness. It had been notorious at the time that the "290," as she was called, was being built for the Confederates, and Lord Russell's constant demands from the American Minister for further "proofs" of her destination, before he would forbid her departure, were certainly, under the circumstances, ill-advised. Then, suddenly awakening to the gravity of the situation, the law-adviser to the Crown was hastily consulted. In consequence of his illness, a delay—a fatal and costly delay—of some hours ensued, and when the telegram to "stop her" reached Liverpool the bird had already flown.

In any case, whether the decision of the Court was right or wrong; whether it was according to evidence or according to favour, there is no doubt but that the arbitration—for which one is glad to think both of the great parties in the State were together responsible—was not only good in itself but was an excellent precedent for the future. It healed a festering sore, and brought two nations—who, above all others, should be friends—from a state of irritation and tension into a state of amity. It removed a cause of dispute which, sooner or later—and at a time probably the most dangerous to England—would have become a cause of war. Arbitration is no panacea for the settlement of international disputes due to dynastic causes, jealousy, or sudden passion; but by its means may be settled many questions which, if left unsettled, would cause ever-increasing irritation, but which, by mutual consent, may be happily decided peacefully, and without injury to the pride of either party.

The dollars were to be paid by September, 1873; and the question at once arose, should the whole or only a portion of the three millions and a quarter be met in the current year?

dissenting) liable for the acts committed by the *Shenandoah* after she left Melbourne. By three to two England was held to be not liable for the acts of the *Retribution*, and was unanimously acquitted of liability with regard to the other five ships brought into question.

The Chancellor of the Exchequer elected for the latter course. The charge was a special charge, one "that has never happened to us before," although, added Mr. Lowe, awkwardly, "I am quite willing to say I hope it may happen again"—meaning, as he explained in response to cries of remonstrance, that in case of future disputes he hoped a similar method of settlement would be adopted.

The charge was due to no action taken in the financial year 1873—the award had not even been made within the year—and was due to the remissness of a former Executive; it could not therefore be said to be peculiarly a liability on the coming twelve months more than on any other year. Still, though it certainly would not have been either necessary or expedient to have imposed taxation in order to meet the whole of a charge like this, it is a question whether the Budget was a sound one which proposed to remit taxation and to make provision for some reduction of the ordinary debt, while at the same time it was intended that if necessary, money should be borrowed on Exchequer bonds to meet a special liability. However, as no allowance at all had been made for increased revenue, the most obstinate and obtuse financial pedant must have realized, that, with prosperity in full swing, with trade still expanding, and peace universal, the annual elasticity of the four previous years, averaging two millions and a half, was not likely suddenly and entirely to disappear; and that in all probability there would be a surplus sufficient to meet the postponed moiety of the *Alabama* award. Half of the damages in which England had been cast (£1,600,000), was to be immediately met from the surplus, and half was to be left over to be met if the revenue permitted.*

While provision was thus made for the liquidation of a million and a half of a special liability in 1873, three millions and a quarter of revenue were remitted. The income tax was further reduced by a penny. The duty on sugar—"the delight of children, the solace of old age," as this Chancellor of the Exchequer

* "As to the rest of the sum—namely, another £1,600,000—we think that we ought to provide for its payment, without any further resort to the taxation of the year, by asking for power to give Exchequer bonds or Exchequer bills for the amount, in case—which I do not at all anticipate—of an unfavourable state of the finances." He added further on, "We hope that we shall not have to make use of the Exchequer Bill at all." (Budget Speech, 1873.)

called that article of consumption—was to be again diminished by one half, from 5*s*. 3*d*. to 2*s*. 8*d*. a cwt. on the standard description of sugar.

With the surplus at his disposal, the Chancellor of the Exchequer was fully justified in remitting another penny of the income tax; but the reduction of the sugar duty was hardly altogether judicious. A low duty is better than a high one. But reduction can be carried too far; and it is better to wait for an opportunity of sweeping away a duty altogether, rather than to apply revenue, which might be put to better purpose, in reducing a duty to a point at which, while the chief evils resulting from it remain, the advantages of a large revenue are relinquished. So, in this case, the reduction was neither one thing nor the other. The sugar duty was producing some £3,250,000 a year. By the reduction of duty now given, this yield was reduced to about £1,800,000; * and, while the retail price of the article was scarcely affected, the interference with trade, caused by the existence of the duty and the cost of collection, remained as serious a burden as before, and become out of all proportion to the productiveness of the tax. Then the reduction of the duty to such a low figure could not but give rise to expectations of final abolition within a measurable time, and thus the whole trade was disorganised. Fortunately in this case the period of disturbance was not prolonged, the state of the revenue the following year rendering final abolition possible and advantageous.†

The relinquishment of a penny of income tax would, it was estimated, cost £1,750,000 (the produce per penny had of late been rising rapidly) and on the year about £1,400,000. The total gross loss on sugar would be £1,630,000; the recovery would amount to some £200,000; leaving a net loss to the Exchequer of about £1,430,000. The surplus remaining after these deductions, to help to meet the other moiety of the "damages," would amount to £300,000, and this was to be carried forward.

Before the year 1873 was out, an unforeseen item of £800,000 was incurred for the Ashantee war. England had previously had two little difficulties—one in 1824 and one in 1863—with the Ashantees, neither of which had been very satisfactorily con-

* After the expected recovery of revenue of £200,000.
† See for sugar *I. 324*, and *II. 108* and *187*.

cluded. On the first occasion we had indeed captured the regal umbrella; this capture had not, however, proved conclusive, for the Ashantees procured another, which constituted almost our only trophy in the third war. The "mysterious mess," as Mr. Disraeli once designated the affair of 1873, was cheaply, rapidly and successfully carried through, and involved no great loss of life, or expenditure of money.* A small addition was caused to the Navy expenditure of the year for an expedition, a successful expedition, sent to co-operate with the Sultan of Zanzibar in putting down slavery and the slave-trade in his dominions.

In addition to these special items, the ordinary expenditure of 1873 was greater by over half a million than the estimate. But the vitality of the revenue had again been inordinate. The receipts had been estimated at £73,760,000, they had amounted to £77,340,000; † and thus there was sufficient revenue to meet not only the increased ordinary expenditure, the Zanzibar expedition, the cost of the Ashantee war, and half the *Alabama* award, but to liquidate the other moiety as well, and to leave, at the end of it all, a realized surplus of £870,000. The Treaty of Washington had not, as Lord Derby prophesied it would, "spoilt a Budget."

The Liberal Government fell, just before the close of the financial year 1873, but for its results they were fully responsible, and their record comprises the years 1869, '70, '71, '72, and '73. The period was one, not indeed of unvarying good management, but of uninterrupted financial prosperity; and taking the five years of Liberal administration throughout, it can scarcely be denied, that, though there were very considerable fluctuations, economy did substantially prevail. The high hopes of 1869, the roseate view of an economical future—of another period such

* The cost was rather under a million. The number of British troops engaged was 2,600 men.

† Of this amount, however, some £890,000 was due to extra and unexpected receipts under the heads of Post Office, Telegraphs and Miscellaneous. Considerable irregularities had been committed during the last year or two in connection with the Post Office and Telegraph revenues and expenditure. Some £812,800 of Post Office receipts that ought to have been paid into the Exchequer had (without the knowledge of the Treasury) been applied in the form of capital expenditure in connection with the extension of the telegraphs. The revenue, thus improperly kept back, was now revoted; £652,000 to the credit of the Post Office Revenue; £148,000 to the credit of the Miscellaneous Revenue. See *II. 52.*

as that of 1862–65—were indeed doomed to considerable disappointment. The reduction of expenditure from 1862 to 1865 was progressive, the expenditure of 1869 to 1873 showed an almost progressive increase. But the former period was one exceptionally favourable to economy. It was a period of legislative inactivity, of little or no increase in the "automatic" services, of a moderate improvement of trade. The latter period, from 1869 to 1873, was one of unexampled activity in every way, politically, socially, and commercially. The legislation of the Government itself—legislation demanded by the temper of the times, Education Act, Irish Land Act, social and paternal legislation of different descriptions—all tended to increase the expenditure; while the very prosperity of the period increased the annual outlay on the business departments, and the increased price of materials the cost in the spending departments. Again, when the revenue is showing splendid vitality, and is seemingly inexhaustible, when everyone feels that they themselves and the nation at large are prosperous, it is much more difficult for a Government to practise economy than in times of depression, gloom, or stagnation, when every extra sixpence of taxation is viewed as an additional grievance. To keep the purse-strings tightly tied in times of prosperity seems to savour of unworthy parsimony in a great and rich country, and it required all the determined will and persistent efforts of a strong Government, and of strong Ministers, even partially to resist the pressure to expenditure urged upon them on every side.* On the whole, the wonder is, I think, not that

* "For my part, I heartily wish that the House of Commons would put pressure and duress upon me, for the purpose of making me more economical than I am. But what are the facts? I get a fair share of the abuse which falls to the lot of ordinary mortals in my position. But did you ever see an article in a newspaper since I have been Chancellor of the Exchequer reproaching me for extravagance? No, it is for meanness that I am reproached, for niggardliness, for want of generous sympathy, for the absence of everything that tends to the profuse expenditure of the public money." (Mr. Lowe, *H.*, April 4th, 1872.) And again later (*H.*, February 18th, 1879):—"If there is a man in the world anxious for economy, depend upon it, that man is the Chancellor of the Exchequer, and that not from any superior virtue he may happen to possess, but because his character, his position, his very existence, is involved in his being able to keep the expenditure of the country within bounds. Others may be sincere in their professions of economy, you may always thoroughly believe in him. On the other hand, as to the House of Commons, can any hon. Gentleman who has had experience in this House really believe that the business of the House is mainly, or indeed in any perceptible degree, the promotion of economy in any way whatsoever? The Chancellor of the Exchequer is exposed to the most urgent importunities. What for? Does my hon. Friend suppose that people go to

Mr. Gladstone's first Government economised so little, but that, under the circumstances, they managed to economise so much. The marked difference between a professedly economical Government, determined to keep down every expense,* and one which is less strict both in word and deed, was forcibly shown by the difference between the partial economy of 1869-73, and the rapid expansion of expenditure which took place under every head, between 1874 and 1880.

In 1867 the optional ordinary expenditure,† which had been about 42½ millions, and in 1868 just over 42, in 1869 was reduced to just over 39½, in 1870 it was nearly 40½ millions, in 1871 it rose to nearly 44, was reduced to 43 in 1872, but rose to a little over 45 in 1873. The expenditure on the army and navy in 1873, though comparing very unfavourably with that of 1869, still, in spite of the great increase in price of materials,‡ showed a diminution of a million and three-quarters on that of 1867.‖ The Army (excluding Purchase) cost £13,800,000 in 1873 against £14,400,000 in 1867; the Navy £10,400,000 against £11,400,000.**

The increased expenditure which had taken place between 1867 and 1873 was due to three principal causes— "Purchase," Telegraphs, and Education. The instalment for the abolition of "Purchase" falling on 1873, £700,000, an item of expenditure

Downing Street, and say to the Chancellor of the Exchequer, 'For Heaven's sake, do away with that job, alter or cut down this office!' Nothing of the kind. I venture to say that in the course of the five years I held the office, no such application was made to me. I frequently had, 50, 60, or 100 gentlemen calling upon me to urge their views—gentlemen whose support was most valuable to the Government, and who knew it and felt it, and desired that I should feel it too; who went away a little less than furious because the things they wanted done—things very good and proper, perhaps, in themselves—could not be done by the Government simply because the expense would have been too much for the public purse."

* Mr. Lowe once confessed (September, 1873) that he had not hoped on acceding to office to be able to emulate Pitt, Peel, or Gladstone, in financial ability or originality, "but I had read in a Latin grammar, that economy was a great revenue, I felt that the task of watching over the revenue was open to me, and to that task I devoted myself." Personally he had been much abused for his economy, but at least he had the satisfaction of knowing that through the reduction of expenditure and taxation which he had brought about, "Somebody has got something in exchange for what I have done."

† Exclusive of the Indian charge.

‡ Estimated at half a million.

‖ The year 1867 is taken for purposes of comparison, as much of the reduction of expenditure effected in 1868 was due to the Government of 1869. See *II.* 78.

** Including the deficiency voted in 1868. There is this to be said for the Army estimates under Cardwell, that in every year the actual expenditure was less than the estimate, except in 1870–71, a year of panic.

that did not exist in 1867; but the increase of expenditure under this head was due to deliberate policy, and was not a question of economy or the reverse. The Business departments, chiefly on account of the telegraph service, cost £1,240,000 more than in 1867. The cost of administration, including collection, had mounted up from 13¼ millions in 1867 to nearly 15½ in 1873, but half of this increase was due to the additional annual outlay on education, the cost of which had risen from one million in 1867 to two millions in 1873. Increased aids to local taxation accounted for half a million, the rest was due partly to other "automatic services," and partly to a mere change of accounts. If the increased cost due to Business, Purchase, Education, and Transferences, amounting to over three millions, be deducted from the two millions and a quarter of increase in the optional expenditure since 1867, it will be seen that, on the whole, there had been practically no preventable increase of expenditure.

Mention has been made more than once of the marvellous expansion of revenue which took place in these years. Every single item of revenue, "business" as well as tax revenue, showed a great and continuous increase. The total gross revenue of the Post Office in 1867 was £4,630,000, in 1873 the Post Office revenue was £5,340,000,* and the Telegraphs £1,210,000, a total of £6,550,000. The tax revenue of 1867 amounted to £62,000,000; between 1868 and 1873 (inclusive) nine and a half millions of revenue were on balance remitted, yet the total tax revenue in 1873 was no less than £66,100,000. An average increase of some two and three-quarter millions a year, against one of about a million between 1840 and 1850, about a million and a quarter between 1853 and 1859, and about a million and three-quarters between 1859 and 1865.

The receipts from the "business" stamps—a very true sign of the activity of trade—had very largely increased, from £1,380,000 in 1867 to £1,860,000 in 1873. The yield from the death duties was also considerably greater, but the splendid harvest of profits that had of late been growing and ripening would hardly be garnered by the Exchequer until some years later.

* That is exclusive of the special item of £350,000 that was paid in 1873, but which belonged to earlier years.

The tea duty and the sugar duty and the receipts from wine and spirits had been increasingly productive. The first yielding in 1873 3¼ millions against the 2¾ millions of five years before, the latter, calculated on the old rate of duty, would have been yielding some 7 millions against 5½. Tobacco was producing over 7¼ against 6½ millions. The darker side of the increasing revenue was the stupendous yield from duties on intoxicants, showing only too clearly that the working classes were, to a large extent, drinking away their high earnings, and leaving little or no reserve for a time of depression. The revenue from spirits was 20 millions sterling against a little over 14¾ in 1867. That from wine was £1,790,000 against £1,470,000, that from malt 7½ against under 6½ millions: a total revenue from intoxicants of £29,300,000 for 1873 against £22,600,000 for 1867.

In 1870 Mr. Lowe had entered somewhat fully into the question of taxation, and had declared that the right principle of taxation was equalization of pressure. The tax-payer was like the "little animals at the bottom of the ocean," who successfully withstand a pressure of three tons to the square inch. They were able to live under these conditions because the pressure was equalized. So with the tax-payer. "The Chancellor of the Exchequer," he went on to say, "is a man whose duties make him more or less a taxing machine. He is intrusted with a certain amount of misery which it is his duty to distribute as fairly as he can." He ought not to distribute his "pecuniary misery" by picking out a certain number of persons and driving them "raving mad with ticdoulloureux or gout, and exempt all the rest of the community. That is not just. He should contrive to make every body a little uneasy, so that life, if not enjoyable, should be at any rate tolerable. That is my notion of the true theory of taxation. The worst tax," he added, "is that which is strained to the utmost: the strain of taxation can be made most tolerable by spreading it over a number of articles. . . . . Therefore I am not willing," he wound up by saying, "to let go any great branch of revenue that is levied with tolerable ease and without any grievous pressure. . . . . While reducing the burdens of the people to the very lowest possible amount, I shall not willingly let go altogether any branch of revenue which I think can

be collected without imposing any great suffering upon the community."*

Acting on the policy thus laid down, Mr. Lowe between 1869 and 1873 divided his favours and his "misery," his remissions and his impositions, almost exactly between direct and indirect taxation. The corn duty was given up; the coffee duty was reduced by one half; the sugar duty was reduced to one-third of its former amount; and the income tax was reduced by one-half—to 3*d.*, the lowest point it had ever touched; and if it had not been for the unlucky events of the year 1871, it would probably have been reduced still further. Alleviation of burden was given to the poorer classes of the tax-payer. The fire insurance duty, a tax on prudence, and the remaining stamp duty on newspapers, were repealed, together with a considerable number of small and vexatious licence duties. Further, a most satisfactory simplification and codification of the stamp acts was carried through. The system of collection of the income tax and of the land and inhabited house duty was improved. The assessed taxes were placed on a far more economical and productive footing. While, at the same time, by the institution of these very reforms, a considerable sum of money was received for the benefit of the general tax-payer. The proposed match tax was no doubt a mistake; so was the proposal to increase the burden of the death duty on the nearest of kin. But the proposed increase of the succession duty was just and right; and the proposed scheme of per-centage of the income tax had much to commend it. The total gross remissions amounted to about 12½ millions sterling, and of this direct and indirect taxation each received a little over 5¼ millions, leaving somewhat under two millions for remissions of "neutral" taxation.†

It may well be questioned whether it was entirely wise—it certainly was scarcely consistent with Mr. Lowe's own expressed financial principles—to relinquish altogether, as he did, two large branches of indirect taxation, the corn duty and the sugar

* Budget Speech, *H.*, April 11, 1870.

† See *Appendix L.* The total gross impositions from 1869 to 1873 came to £4,670,000, the total gross remissions to £17,150,000. A certain portion, about half a million of the remissions given in 1873, did not take effect until 1874. But against this, may be put about half a million of income tax imposed in 1868 but not received until 1869.

duty, the latter practically doomed after the reduction of 1873. The relinquishment of these duties was a totally different matter to former repeals of taxation that had taken place, or to the repeal of the fire insurance duty. The taxes relinquished in earlier years, especially in 1845, 1846, 1853, and 1860, were of a protective, differential, or unremunerative character, injurious duties on food, and on raw material; or excise and stamp duties of the worst description. The duties now relinquished were simple duties on articles of general consumption, and (except so far as all taxes are injurious) were not very costly to collect, nor specially vexatious to the trade. Indeed, if the financiers of the time had been able to look ahead, to foresee both the slow progress subsequently made by the revenue and the enormous increase which took place in the expenditure, it is very possible that the sugar duty, if not the corn duty, would have been still retained. But those were the days of "leaps and bounds;" the chief recurring difficulty of the Chancellor of the Exchequer was, as Mr. Lowe put it, to know how to get rid of all the money which persisted in pouring in upon him. The general impression at the time was that the country need never fear either a deficiency of receipts or a shrinking of revenue. The income tax was rapidly increasing in productiveness, and could—for Mr. Lowe was no abolitionist—again be raised on an emergency; while the nation, it was thought, could extricate itself from any emergency with the same ease, and by the same means, with which it had "drunk itself out of the *Alabama* difficulty."

Nor was it remotely anticipated that the expenditure of the country would increase within fifteen years, or that it would or could rise from an annual average of seventy millions to an average of eighty-eight millions. The country was still in those halcyon days when, notwithstanding expenditure had somewhat expanded since 1859,* any expenditure above seventy millions was still looked upon as enormous, and its reduction essential to the prosperity of the country. Thus the policy of entirely freeing from taxation certain branches of trade was apparently a policy

* In which year Mr. Disraeli had asserted "that there is no country that can go on raising seventy millions per annum with impunity—England cannot, and, if England cannot no other country can." (*H.*, July 21, 1859.) See Mr. Bright's somewhat similar saying in regard to the expenditure, *II. 129, n.*

not only unobjectionable but beneficial.* Whether right or wrong on this point, the general financial policy of the Government was on the whole sound and satisfactory; and the remissions given did much, by opening out trade and by encouraging commerce, to assist towards the increased consumption and elasticity of revenue, which were the most marked features of the time.

Mr. Lowe failed, as Mr. Gladstone had failed before him, to appreciate the necessity and the advantage of making a more regular provision for the redemption of the debt. The very low estimates of the revenue that were annually made, resulted in the annual application of large sums to this purpose; but it would have shown a more robust virtue on the part of the Government, it would, we think, have had a better moral effect, if the reduction of the debt had been made deliberately, and had not been apparently the chance result of miscalculation of revenue. Excluding sums which had been raised for especial purposes—telegraphs, forts, localization, &c.—the total amount of debt paid off in the five years, 1869 to 1873, amounted to the very large sum of thirty-six millions, an unprecedented average reduction of over seven millions a year.† Nor was this all. In addition to those thirty-six millions of ordinary debt, special liabilities —*Alabama* arbitration £3,200,000, Abyssinian war £4,300,000, Vote of Credit, 1870, £1,450,000, Ashantee war £900,000, in all over nine and three-quarter millions—were met, making an average annual outlay on debt and liabilities of all descriptions, of some nine millions a year.

Mr. Lowe can perhaps hardly be called a great financier, but his financial views were sound if sometimes pedantic, and liberal

* Sir G. Lewis (in 1862) writing to Lord Stanhope (*Miscellanies*, by Lord Stanhope, 1863), said that, "Lord Grenville told his father that Pitt formed a plan for abolishing all custom duties, and that he would have carried it into effect if the war of the French Revolution had not broken out, which defeated all his financial and commercial plans." Lord Stanhope confirms this to a certain extent by quotations, &c., showing at least that Pitt desired to abolish the custom duties on raw materials, "the increasing importation of which," he said, 'was at once a symptom and a cause of the increasing wealth of the country," and he was greatly in favour of the extension of foreign trade. McCulloch (*Treatise on Taxation*, ed. 1863, p. 238) endeavours to controvert the assertion that Pitt did not desire to abolish all custom duties.

† See Debt Table, *Appendix D.* The largest amount paid off in any one year, probably the largest net amount of debt ever paid off in one year, was in 1872, when the debt was actually reduced by over nine millions. The nominal reduction in 1869 was greater, but it was complicated by the Bankruptcy and Chancery accounts.

if sometimes crotchety. To him fate has been unkind. It is somewhat hard that he who carried through many eminently satisfactory financial reforms, who in his day reduced more debt and remitted more taxation than any preceding Chancellor of the Exchequer during the same space of time, should live in the memory of his countrymen chiefly as the advocate of a cheese-paring economy, and the proposer of an abortive match tax.

# CHAPTER XXVI.

## THE ELECTION AND THE INCOME TAX.

### 1874.

The Liberal Government had never really recovered from their misfortunes of 1871, and when, in 1873, they attempted to deal with the thorny and difficult question of Irish University Education, their defeat was ensured. Mr. Gladstone, as graphically depicted by Tenniel, having cleared the first two, "came a cropper" over his third Irish fence.

The Irish University Bill was an attempt to combine elements which were almost impossible of combination, and to satisfy, at once, the conflicting prejudices of English Protestants and of Irish Roman Catholics. In attempting to remove "a civil disability imposed for religious opinion," to engraft a purely Roman Catholic University on to an existing Protestant Institution, and to find a common basis of education, it was necessary so to modify as really to destroy the efficiency of the system. Thus was to be founded a Roman Catholic University without theology, an educating University without modern history, a dialectical University without moral philosophy. The Bill, that was to please everybody, pleased nobody. The Roman Catholic prelates denounced the proposed University as godless, the Liberals maintained that the education given would be worthless; the Dissenters objected to concurrent endowment, and the regular Opposition took up their cudgels against the scheme in general.

The adverse forces were too strong for a Government already weakened by adversity, and against whom, as was clear from the bye-elections, the current of public opinion was running.* The

* In 1869–70 the Government at the bye-elections lost and won about the same number of seats. In 1871 they lost six seats and gained only one. In 1872 they

second reading was lost by a majority of three votes.* The Government immediately resigned. But it is one thing to resign, another to find a successor. The leader of the Opposition, who had led the attack on the Government, was determined not to take office just then. It was clear that the Government were becoming more and more unpopular. Time was on the side of the Conservatives, and their policy clearly was, for the moment, to keep free from the responsibility of office, in order that, six months hence, they should be received as (to use Mr. Disraeli's words), vindicators of intolerable grievances, instead of as a "defeated, discredited, and degraded Ministry, whose services could be neither of value to the Crown nor a credit to the nation."† The long and short of it was, that Mr. Disraeli absolutely refused to take office; and there was nothing to be done but for the Liberal Government to accept the unwelcome reprieve, and to resume for a season their thankless task; further discredited, as a Government must be, by resuming office after defeat and resignation.

In the course of the autumn of 1873, a despairing attempt was made to change the luck by re-shuffling the cards.‡ The Ministry was reconstructed. Mr. Bright again joined the Government.‖ Mr. Lowe—who, only a few months before, when charged with trenching on future resources, had declared that he intended to be his own successor at the Exchequer in the following year—was translated to the Home Office, in the place of Mr. Bruce elevated to the Upper House. The Prime Minister took on himself the additional duties of Chancellor of the Exchequer—a combination of offices which, though common enough in earlier days, had not

lost seven and gained none. In 1873 they lost nine and gained two. Between the general election of 1868 and the announcement of the dissolution, the Liberals had lost thirty-two seats, and the Conservatives nine; a net gain to the latter of twenty-three seats. The Liberal majority of 116 had fallen to about seventy. (See *Annals of Our Time*, p. 1136; Raven's *Parliamentary History*, pp. 223, 261.)

It is always difficult to label certain members with party initials, or to fix a parliamentary majority at an actual figure. Some men habitually sit on one side of the House and vote on the other, and the votes of certain men are always indeterminate. Mr. Gladstone (*Nineteenth Century*, Sept. 1887) puts his majority of 1869 at 110, and that of the Conservatives in 1874 at forty-eight. According to *Annals of Our Time*, the Conservative majority in 1874 was fifty-one.

* 284 for the second reading, 287 against. † See *II. 11, n.*

‡ "There is such a thing as sameness," said Mr. Lowe, at Sheffield. "People are weary of seeing the same persons always in the same positions." Sept. 4, 1873.

‖ He had resigned, in consequence of ill-health, in the winter of 1870.

occurred since the first administration of Sir Robert Peel in 1834.* This last step, people said, foreboded some startling financial operations. So it did, but not quite in the form that was expected.

The House had been summoned to meet in the ordinary way on February 5th, 1874. But on January 24th, without a word of warning, the address of the Prime Minister to his constituents suddenly appeared. Parliament was to be dissolved. The grounds on which the Prime Minister justified the dissolution were of no ordinary character. Neither efflux of time nor the prominence of any particular question necessitated an immediate appeal to the country. But "five years of anxious and varied effort" had, wrote he, impaired "the strength, both of the House and of the Administration," for the discharge of their "arduous duties." It was clear, from the result of recent bye-elections, from the "summary and rapid dismissal" by the House of Lords of Ministerial measures, that the Government were not "invested with adequate authority," and that a "fresh access of strength" was required to enable them to carry out, with dignity, credit, and advantage to the country, many reforms which they still desired to accomplish.† The action of the Opposition, in refusing to accept the responsibilities of office in the existing House, had, said the Prime Minister, "both diminished the strength of the Government, and weakened the general guarantees for the responsibility and integrity of Parliamentary opposition." Under these circumstances, the nation ought to be given "full opportunity of expressing will and choice as between the political parties," thus giving power and authority to whichever party came back victorious from the elections, to carry out the popular mandate in a satisfactory manner. This was a high motive for an appeal to the country, and Mr. Gladstone accepted the adverse verdict in a statesmanlike and generous spirit. "If," said he, after the meeting of the new Parliament, "if any justification is required for having

* See *II. 274 n.*, "Chancellor of the Exchequer."

† The reforms mentioned in the Address, in addition to the financial questions, were those of the "transfer, descent, and occupation of land"; local government and rating; London municipal reform; liquor laws; law affecting relations between employer and employed; game laws; judicature reform; university reform; and lastly, the extension of the county franchise, the principle of which had been affirmed by the moribund House.

advised a dissolution, this justification was to be found in the result . . I cannot regret a dissolution which has given to the people of this country an opportunity of pronouncing their opinion upon the conduct of affairs, though (he naturally added) I think the judgment that has been passed an erroneous one."

The greater part of the election address of the Prime Minister and Chancellor of the Exchequer had been devoted to finance; his appeal to the electors had taken the strange form of a Budget statement. More than a third of the "prolix narrative"—as Mr. Disraeli, whose own address was a model of conciseness, designated that of his rival—was devoted to questions of expenditure and finance.*

There would be, so Mr. Gladstone told the country, for the coming year, 1874, "a surplus exceeding rather than falling short of £5,000,000;" and its existence offered "a great opportunity of affording relief to the community, and an opportunity which might be turned to the very best account." Relief could, by means of the surplus, be at once conferred in three ways—there were three "boons," which, as he said at Greenwich, had been joined, and could not be disjoined. First there was to be "relief, but relief coupled with reform, of local taxation;" secondly, "at a sacrifice for the financial year of something less than five millions and a half," the country was to "enjoy the advantage and relief of the total repeal" of the income tax;† and, thirdly, along with the relief given to the ratepayer

* See Mr. Gladstone's interesting article in the *Nineteenth Century* for June, 1887, for a defence of the action of a Minister in issuing a Budget Address, and for an elaboration of the financial arguments used in his election address.

† "Bribery," says Mr. Lecky, in the sixth volume of his *History*, where he compares the political morality of his favourite eighteenth century with that of the nineteenth century, "Bribery is (now) applied not to individuals but to classes. Dexterous appeals to ignorance, passion, and prejudice become supreme forms of party management. Questions of vast and dangerous import are unscrupulously raised for the purpose of uniting a party or displacing a Government; and a desire to trim the bark to every gust of popular favour produces apostasies, transformations, and alliances, compared with which the coalition of Fox and North will appear very venial. No modern statesmen would attempt to bribe individuals, or purchase boroughs, like Walpole or like North; but we have ourselves seen a Minister going to the country on the promise that, if he was returned to office, he would abolish the principal direct tax paid by the class which was then predominant in the constituencies" (vi. 300).

This seems to me a one-sided account of the affair. Twice before had Mr. Gladstone himself endeavoured to extinguish the income tax, and a fair opportunity had now again come round. Then, unquestionably, as Mr. Lecky himself later admitted, the income tax payers were not "predominant," or anything like

and the income-tax payer, the "general consumer" was to be given "some marked relief in the class of articles of popular consumption." These boons disposed of "more, indeed considerably more, than the surplus he had named." But "moderate assistance" could be had "in conjunction with the great remissions" from a "judicious adjustment of existing taxes." And, added Mr. Gladstone, "he could not belong to a Government which did not on every occasion seek to enlarge its resources by a wise economy." *

In a word, the whole system of finance was to be altered and reformed. The repeal of the income tax was defended on the ground that the income tax, except as a war tax, had been borne with "exemplary patience," because it was admittedly a temporary tax, "the country cherishing together with the desire, the expectation or hope of its extinction:" and its extinction was now practicable. † What the "judicious adjustments" were to be, by which were to be raised the odd two millions of money required in order to carry through the financial proposals of the Address, though hinted at, were not at the time actually revealed. ‡

predominant, in the constituencies, and the ballot was in existence. See Mr. Gladstone's reply to Mr. Lecky in *Nineteenth Century*, June, 1887, and Mr. Lecky's rejoinder, July, 1887.

* "To effect these purposes, we shall require for the coming financial year more than £7,000,000 of money. More than five millions we are already enabled to contemplate as our accruing surplus; and, for the remainder, I have pointed to two sources—one of them a moderate and equitable adjustment of existing taxes, and the other public economy."—Mr. Gladstone, at New Cross, Feb. 2, 1874.

† "Those who gave the promise (in 1853), believed the thing they promised to be politic and right, and for the promise they received large value in the stability both of the finance and the Administration. They bound themselves to get rid of the "principal direct tax;" and none but the nation could absolve them from the attempt to fulfil their offer. Public exigencies postponed for fourteen years the practical acknowledgment of the obligation, but it had never been forgotten. The way had been carefully prepared by the Ministry of 1868–74, through successive reductions of the tax from 8*d.* to 3*d.* In 1874, for the first time since 1845, the opportunity arrived. The nation had its opportunity, and took its choice. It may have been wise or unwise; but it was made by competent authority. The result is told in our present expenditure of ninety millions. What, in Mr. Lecky's mind, is a piece of unequalled political profligacy, was in prospect, and is in retrospect, according to my conviction, the payment of a debt of honour, and the fulfilment of a solemn duty."—Mr. Gladstone, *Nineteenth Century*, June, 1887, p. 935.

‡ Mr. Gladstone said at Greenwich (Jan. 28th) that he had carefully examined and made up his own mind, "first of the necessity, and secondly of the practicability of affording at the same time an effective and important relief to the general consumer." He was convinced that no Ministry or Parliament would "ever be able to pursue a course of such astonishing partiality, and such unmitigated class legislation as to relieve the real property of the country by reduction in rates, to relieve the real and personal property of the country by repealing the Income Tax, and at the same time to leave the mass of the consuming population exactly where they are." "I may

The whole plan was defeated, and increased expenditure soon placed it beyond the region of possibility. But Mr. Gladstone himself has lately informed us what were the means by which he would have proposed to carry it out. The death duties were to have been "reconstructed and enlarged. Direct taxation (the income tax) of a kind most vexatious to trade and industry was to be removed; direct taxation (death duties) the least of all unfavourable to trade and industry, and going, as a direct tax should wherever possible go, straight to property, was to be imposed." *

The Prime Minister anxiously desired that the election should mainly turn on "the question of finance, and the question of economy." † But this was not to be; and the election, as a matter of fact, turned, not on the question of finance, but almost entirely on the question of confidence; while, as the bulk of the electors certainly did not pay income tax, naturally they could not be roused to much enthusiasm for its abolition. At first, too, the financial proposals of the Prime Minister and of Mr. Disraeli were practically identical. A surplus, said Mr. Disraeli, would, of course, be given away in remissions whoever was in office. The principal measures of relief proposed by Mr. Gladstone, the diminution of local taxation, and the abolition of the income tax, were, said he, "measures which the Conservative Party have always favoured, and which the Prime Minister and his friends have always opposed." ‡

Turning, as it did, not on the question of finance, but on the question of general policy and general conduct, the result of the election, though it came as a great surprise on the country, was practically a foregone conclusion. We have already discussed the chief causes of the decline and fall of the great Liberal

say," added he later, "that if the property of the country be so largely relieved as it would be by the repeal of the Income Tax, it is perfectly plain that in some shape and to some moderate and equitable extent property ought to make fair contribution towards the public burdens."—See also New Cross Speech, February 2, 1874.

* *Nineteenth Century*, June, 1887, p. 935.

† Speech, Greenwich, February 28th, 1874.

‡ "It is now evident," said the *Times*, "that whoever is Chancellor of the Exchequer when the budget is produced, the Income tax will be abolished." (January 26th, 1874.) Again, the next day, "How tame for the Conservative leader, who is nothing if not original, to have to say 'ditto' to Mr. Gladstone. . . . But there was no alternative. At such a moment as this it would be fatal to bid lower than the enemy. . . . We are to have our income tax taken off and our rates lowered whichever comes in."—*Times*, Jan. 27th.

Government. The "Bath" letter of October, 1873,* though couched in language too forcible for the Bath waverers, did in the main express a pretty general opinion. There had been, to use Mr. Disraeli's expressive phrase on another occasion,† an examination into everybody's affairs; every profession had been criticised, and every trade had been vexed; no one was certain of his property, and nobody knew what duties he might have to perform on the morrow. There had been too much energy at home, and too little abroad.

No Session had passed without alienating some class, some interest, or some individuals. The Liquor Bill had alienated the publicans. The Irish Church Act, the clergy. The Irish Land Act, the landlords. The Army reforms, the army. The Admiralty reforms, the dockyard labourers and the navy officials. The abolition of patronage, and the introduction of competition into the Government offices, had done something to offend the third branch of the Service. The Education Act and the Education discussions had, to a large extent, alienated the sympathy and support (if so confused a metaphor is admissible) of the "backbone" of the Liberal Party—the Nonconformists. The Irish vote was cast against those who had lost popularity and power in trying to benefit Ireland. The economists were bitterly disappointed. The Peace party could not endure the increased war expenditure; and those who afterwards developed into "Jingoes," abominated the arbitrations. Arbitration, it was indeed generally allowed, was an excellent thing in the abstract; but in the concrete, when it went against England—the San Juan award had followed the Alabama award—it did not tend to the popularity of those in office.‡

* The vacancy in Bath had been caused by the succession to the peerage of Lord Chelsea, a Conservative. Captain Hayter, the Liberal candidate, won his seat by 2,210 votes to 2,071. Mr. Disraeli had written to the electors, "For nearly five years the present Ministers have harassed every trade, worried every profession, and assailed and menaced every class, institution, and species of property in the country. Occasionally they have varied this state of civil warfare by perpetrating some job which outraged public opinion, or by stumbling into mistakes which have always been discreditable and sometimes ruinous. All this they call a policy, and seem quite proud of it; but the country has, I think, made up its mind to close this career of plundering and blundering."—October 3, 1873.

† On second reading of Irish University Bill.—*H.*, March 11, 1873.

‡ The Attorney-General (Sir John Coleridge) probably expressed the feelings of a good many people when, speaking of the Treaty of Washington, and the Geneva award, he said at Exeter (October 24th, 1872), "I admit that there is a good deal in

The warm advocacy by the Prime Minister of the scheme of the Charity Commissioners for the practical appropriation of the endowments of Emmanuel Hospital had alarmed those who considered that, come what might, the wishes of "pious founders' ought to be held sacred. The Post Office and Telegraph scandals —the appropriation of Post Office revenues to the purposes of the Telegraph expenditure—had done something to discredit the business capacity of a business Government. There were private feuds and public quarrels. It was popularly supposed that the late Chancellor of the Exchequer and the late Secretary to the Treasury had not been on speaking terms, and that the necessary business between them had had to be transacted through a clerk; while some of the other members of the Government were clearly at discord, or even at enmity, the one with the other. The suddenness of the dissolution was resented by some, the "Budget Address" was resented by others.

The fall of the great Liberal Administration was sudden, surprising, and complete.* Five years earlier they had come into power with a majority of over a hundred votes, they were now left in a minority of fifty.

With the fall of Mr. Gladstone came to an end the third attempt to extinguish the income tax of 1842. Revived six-and-forty years ago as a "temporary tax" for a specific purpose, it still remains—"il n'y a que le provisoire qui dure"—and is on a more permanent footing than ever before. Originally imposed by Pitt as a war tax; revived by Peel for three years for the

this and other things to make an Englishman's face hot and his blood to tingle. I admit that when one reads some of the American arguments, though I am a man of peace, my fingers itch. I admit that it is not a matter for great pride, but it is a matter for acquiescence. I cannot help feeling that on the whole we are well out of a bad business. When I recollect that both parties in the State concurred in meeting the disputed Treaty, when I recollect that Lord Clarendon and the present Lord Derby both tendered arbitration, when I recollect that Mr. Disraeli, with true wisdom and genuine patriotism, has throughout abstained from the slightest motion of obstruction to the Treaty, I confess that I am content to sit down under it, if not altogether with pride, at all events with some amount of serene satisfaction."

If a member of the Government could say all this publicly—and it was certainly a great pity that he should have done so—it is evident that the others must have privately felt even more strongly on the matter.

* It was said that in the cipher telegram sent to an important official, announcing the dissolution, the last word in the "b's" was, either by accident or of malice aforethought, substituted for the first word in the "c's," and the message read "Bunglers have dissolved Parliament."

purpose of placing the finances of the country on a sounder basis and to promote fiscal and commercial reform, it was renewed for another three years for the same purpose. Again renewed for a like period in order to fill a void, annually renewed for a couple of years, it was then, in 1853, voted for a provisional period of seven years, and was again combined with fiscal reform and remission of other taxation. But war broke out almost at once, and the tax was again utilised for its original purpose. Subsequently reduced to the old sevenpence, from that time onwards it has been a yearly tax, and has varied in amount between the 10*d.* of 1860 and the 2*d.* of 1874 and 1875.* Twice since 1853, in 1860 and 1880, it has been increased specifically for fiscal purposes.

Since the time of its reimposition in 1842 the income tax has been, almost year by year, ever more and more productive. The yield from each penny, in 1842—at a sevenpenny rate—was about £730,000; a sum that, by 1853, had risen to £850,000; and by 1873—with a threepenny rate—to no less than £1,750,000. The yield attained its maximum in 1884, when the tax produced over £2,000,000 per penny, with a sixpenny rate. In 1887, with a sevenpenny rate, the produce was £1,955,000 per penny.

Broadly speaking, the income tax is an admirable tax. It is a direct tax on property. It is, on the whole, paid out of a man's abundance, and not from his penury. It redresses the inequality of the pressure of indirect taxation. It brings under taxation many persons who would otherwise escape, and much property that would otherwise go scot free.† At one time a great engine of fiscal reform,‡ it is no longer required in that capacity; but it still remains a source of great strength in time of war—"a third line of defence," as Mr. Disraeli once called it.

But the tax has its faults. The self-assessment of profits under Schedule D tends to fraud and evasion; though it is

* See *Appendix K.*

† "It has many vices but it has one great virtue, which is this—that, in the main, without any injustice in its general scope, without any of those idle dreams of plunder and confiscation which we have heard of to-night, it does make the property of the country subservient to the means of the State, within limits which are safe, and for purposes which are beneficial."—Mr. Gladstone, in 1860.

‡ Disraeli once said, paradoxically though with considerable truth, "that the income tax, instead of being an instrument for reforming our tariff had commenced to be an instrument to destroy it, and that under the influence of the income tax other sources of revenue were constantly disappearing." (*H.*, May 1st, 1873.)

probable that the evasions are now-a-days infinitely less than was the case thirty or forty years ago. The tax is professedly charged at the same rate on permanent as on precarious incomes; and thus its incidence is unequal, as between the workers of the world and those who toil not neither do they spin. So great are the consequent inequalities caused by the tax, and so impossible does it seem to many—to Mr. Gladstone, chief amongst them—to remedy this inequality, that they have been constrained to cry out for abolition as the only possible solution of the difficulty.

Mr. Gladstone's Budget exposition of the evils of the income tax in 1853, and his influence since, have so far dominated the question that, during the last five-and-thirty years, no Chancellor of the Exchequer, and no responsible person, has seriously attempted its reform. Two Committees have sat and considered the matter; but, in neither case, can it be said that the question had a hearing such as its importance demanded. In the one case, that of Joseph Hume's Committee of 1851, the Government not only opposed the appointment of the Committee, but did their best to thwart its objects.* While, in the other case, that of the

* The Committee of 1851, it will be remembered (*I. 94*), was the outcome of a coalition vote against the Budget proposals in reference to the income tax, and did not really express any desire of the majority of the House for a reform of the income tax. The Committee was, on Mr. Hume's motion, appointed in June, 1851, and, owing to the difficulties thrown in the way of the nomination of the Committee by the antagonism of the Government and the apathy of the Opposition, it at first consisted of Mr. Hume alone. Subsequently Cobden, Disraeli, Wood (Chancellor of the Exchequer), Henley, Wilson, Ricardo, and others were added. At the first meeting, which did not occur until Feb. 1852, the examination of the first witness was stopped by the Chancellor of the Exchequer, because the witness entered into the question of the disproportionate assessment of the income tax on house property as compared to that on land. After "deliberations," the Committee rejected, by 6 to 3, a motion of Mr. Cobden "that it is the duty of the Committee to inquire into the justice of imposing an equal tax upon permanent incomes derived from property and upon other descriptions of property," though their reference was "to inquire into the present mode of assessing and collecting the Income and Property tax, and whether any other mode of levying the same so as to render the tax more equitable can be adopted." After refusing to accept the draft report prepared by Mr. Hume (the chairman), the Committee simply reported that, "taking into consideration the importance of the subject submitted to the Committee, the state of business before the House, and the prospect of an early prorogation of Parliament, your Committee is of opinion that there is not sufficient time for discussing and preparing a report that would do justice to this complicated subject, and they therefore merely report the evidence." (*P. P.* 510 of 1852.) It was generally understood, however, that the majority of the members of the Committee were convinced of the impossibility of levying the income tax on any fairer basis than the one in force. Mr. Hume's draft report was republished with a preface by the Financial Reform Association as one of their "Tracts," and can be there referred to in a convenient form. See also a Memorandum of Mr. Wilson's on the subject of and in favour of differentiating the income tax, written in 1853 and republished in 1861.

Committee of 1861, practically no official assistance was vouchsafed to Mr. Hubbard, in his laudable attempt to discover a fairer basis of assessment than that in existence.*

The income tax substantially as it now stands was, it should always be remembered, imposed by Peel professedly and in good faith for a very limited period only.† Instituted to serve a temporary purpose, it was not thought worth while to work out and to introduce a totally new and elaborate system of assessment and levy. Its actual incidence was not, therefore, a matter of transcendant importance, and, when the old war tax—itself a temporary tax—was re-imposed, the old rough and ready system of assessment was practically revived.‡

Pitt had in 1798, when arguing against any form of what may be called an *ad valorem* income tax, expressed the opinion that it is not the business of the financier to correct inequalities of wealth, nor indeed is it in his power. But at least, it may be

* The report prepared by the chairman (Mr. Hubbard, now Lord Addington) proposed to make net, instead of gross income the basis of assessment to the tax; not ascertaining the net income by an account of actual outgoing, but assuming it by a deduction, founded on an average, from certain classes of gross incomes; to divide all income into two classes, of which the one should comprise incomes called spontaneous, and the other incomes called industrial; and to tax the former upon the full amount of the net income, and the latter upon two-thirds of that amount; to distinguish in certain cases between the interest of invested capital and the repayment by instalments of the invested capital itself, and to levy the tax upon the interest only, and not upon the repaid portions of capital. This draft report was rejected by a vote of 7 to 2. "Your Committee," says the Report, "after full consideration, have arrived at the conclusion that the plan proposed by their chairman does not afford a basis for a practicable and equitable re-adjustment of the income tax; and they feel so strongly the dangers and ill-consequences to be apprehended from an attempt to unsettle the present basis of the tax, without a clear perception of the mode in which it is to be reconstructed, that they are not prepared to offer to your honourable House any suggestions for its amendment.

"This tax having now been made the subject of investigation before two Committees, and no proposal for its amendment having been found satisfactory, your Committee are brought to the conclusion that the objections which are urged against it are objections to its nature and essence rather than to the particular shape which has been given to it.

"Your Committee also feel that it would be unjust to make any alteration in the present incidence of the income tax without, at the same time, taking into consideration the pressure of other taxation upon the various interests of the country, some of it imposed by recent legislation, and in one case especially, that of the succession duty, to some extent by way of compensation." (*P. P.* 503 of 1861. See also Mr. Hubbard's Memorandum on the subject of the Report of the Committee, published in 1861.

† The Duke of Wellington, Leader of the House of Lords at the time of the imposition, being asked how long the tax would continue, said "so long as it is necessary and not a moment longer." If this has been the case, it is so not in the sense the Duke intended.

‡ The Income Tax Act of 1842 was a reprint of that of 1806, with certain alterations in regard to exemptions, etc. See Dowell, iii. 119.

argued, that it is his duty not to increase the inequality, and if advantage is to be given to any class, that advantage should lean to the side of the less wealthy. Yet in the case of the income tax, the process is exactly the reverse; the precarious income is taxed at an equal (and therefore at a proportionately heavier) rate as compared to the secure income. The objection to the present system of assessment is, that the tax is levied in the case of precarious incomes not only on income, but also partly on what is practically capital. The owner of a temporary income, not derived from capital, and depending wholly or in part on his own health and life, is bound to save and to invest a portion of his income; a necessity which cannot be said to exist to anything like the same degree in the case of the possessor of a permanent income derived from capital. One man is at liberty to spend the whole of his income without being in a worse position than before; another, if he does more than spend a portion, is practically consuming his capital; and yet the income tax is charged equally on the two. No doubt a good deal has been done since 1852, by the increase that has taken place in the death duties—which constitute direct taxation on realized property—to redress the inequality between the taxation of capital and of income. But I doubt if this really meets the objection formed to the income tax. The additional death duty is levied not only on the "permanent capital," but on the inherited savings from "precarious incomes," every penny of which has already paid income tax.

It is perfectly true, as Mr. Gladstone so clearly pointed out in 1853, that no exact line can be drawn between different classes of income; the precarious merges into the permanent, the "lazy" and the "industrious" are in many cases indistinguishable; one man's income may be worth twenty, another, in the same line of business, but three years' purchase. Indeed—

> "Whoe'er expects a faultless 'tax' to see,
> Expects what neither is nor e'er shall be."

Neither the income tax, nor any other tax, can be made perfect, nor its incidence absolutely fair and just. But "le mieux est l'ennemi du bien"; there is no reason because absolute justice cannot be done to everybody, that justice should be done to

nobody. An injustice that cannot be redressed may yet be minimised. The demand made is not that individual incomes should be distinguished the one from the other, but that an endeavour should be made to distinguish on broad lines between that income which is permanent, *i.e.*, derived from property, and that which is precarious, in the sense that it depends on the personal exertions of an individual.

I have myself no plan to propose. It may be that the heavy burden of the rates on real property, the additions that have from time to time been made to the "Death Duties," the assessment of profits over an average of three years, the deduction for life policies, the assessment on "net" profits in some cases, and "gross" in others, have minimised the inequalities of taxation between permanent and precarious incomes. It may be that no fairer basis of assessment than the existing one can be devised. But it is time that all these questions should be set at rest. The calculations on which these arguments are based are un-official, or at the best official statements not backed by published evidence.* The two enquiries already held were not Governmental enquiries, and they were held in the days when the tax was still looked upon as a temporary tax, and when there was therefore neither the same necessity nor the same anxiety for the reform of the tax that now exists; and when, indeed, many persons looked on the very inequalities of the tax with no unkindly eye, as likely to render its permanent retention impossible. But the tax is now, without doubt, a permanent tax, and there is no longer room for the plea of successive financiers, still that it is, on what Sir S. Northcote once called "a sort of Mahomet-coffin footing, suspended between the idea of being a permanent portion of our financial system and a temporary tax some day or other to be removed."† It seems high time, therefore, that a searching and authoritative enquiry should be held, with a view of seeing how far the incidence of the tax is a fair one, or how it might be improved; how far the system

* Mr. Gladstone (*Nineteenth Century*, June, 1887, p. 934) says that Mr. Disraeli proposed in 1852 to differentiate the income tax by a reduction on Schedule D. "without the knowledge of the Board of Inland Revenue."

† It is but fair to say that Mr. Gladstone has never sheltered himself behind this plea. His consistent argument has always been that there is but one way in which an end can be put to the injustice and inequality of the tax, and that is by putting an end to the tax itself.

of collection is satisfactory, and how far it might be possible to substitute open for secret self-assessment.*

The difficulties in the way of reform are doubtless very great. But so many different sources of indirect taxation have from time to time been eliminated, that we are obliged more than ever to depend on direct taxation, and the necessity of placing the incidence of our principal source of direct taxation on a juster and therefore firmer basis becomes ever more urgent.

* The question of the system of secret self-assessment, might well be considered by such a Commission. Englishmen have a rooted objection to disclosing their monetary affairs. But if publicity were made the rule, the feeling would probably soon disappear. At first, there would be objection and grumbling, but after a time we should get accustomed to it. Publicity would at least do something to diminish, if it did not entirely remove, any fraudulent under-statement of income that may still exist. It would probably tend, if anything, not to under, but to over estimate in some cases, and the Exchequer—and the general tax-payer—would thus gain and not lose.

"As one reads," said Thackeray, "in the columns of the *Times* newspaper every now and then, queer announcements from the Chancellor of the Exchequer, acknowledging the receipt of £50 from A. B., or £10 from W. T., as conscience-money, . . . so is the Chancellor, no doubt, and the reader likewise, always perfectly sure that the above-named A. B. and W. T. are only paying a very small instalment of what they really owe, and that the man who sends up a twenty-pound note has very likely hundreds or thousands more for which he ought to account. Such, at least, are my feelings, when I see A. B. or W. T.'s insufficient acts of repentance." (*Vanity Fair*, 371.) One wonders how the kindly cynic would have classed the fact lately mentioned by Mr. Goschen, that in no single case has a woman ever been known to pay conscience-money; though how Mr. Goschen can tell whether 'A. B.' or 'W. T.' are women or not it is difficult to understand.

One objection urged by Lord Holland against Pitt's Income Tax Bill, would doubtless still remain, under a system of public return of income, namely, that if everyone had to disclose the amount of his property, the knowledge of his father's wealth might "damp the efforts of the youth" in making a career for himself! (*H.*, January 8th, 1799.)

# CHAPTER XXVII.

## NORTHCOTE.

### 1874.

The Liberal Government, following the example of their predecessors, resigned at once after the election, before the meeting of Parliament, and in February, 1874, Mr. Disraeli was again called upon to form a Government.* It took but nine years to produce a Conservative majority after the "Great Reform Act." It had taken nearly thirty years for the Party to recover from the effects of the repeal of the Corn Laws; and now, for the first time since 1845, a Conservative Government was in power as well as place, supported by a compact and not too large a majority —a majority that supported them to the last.

For a space the new Government had it all their own way. They were armed with the mandate of the electors, and their opponents were thoroughly disorganized. The leader of the Liberals retired temporarily into private life. His successor, Lord Hartington, had not as yet had the opportunity of showing his manly and statesmanlike qualities. The defeat had led, as defeats so often do, to recrimination and bitterness between different sections of the Liberal party; and it was not until the foreign policy of the Government had developed and expanded that a point of agreement was again found, and, as in 1858 and in 1868, they were transformed from a disorganized rabble into a disciplined force, irresistibly carrying all before

* It is a great loss historically that as yet we have no life of Lord Beaconsfield at once appreciative, and adequately critical. Four "Lives" there are indeed, but in two of them (Macknight's and O'Connor's) the hero can say or do nothing right, in the other two (Hitchman's and Ewald's) he can say or do nothing wrong. Mr. Kebbel's *Life* is but a sketch.

them. At the Foreign Office was again Lord Stanley (now Lord Derby), who as Foreign Secretary had shown so much ability during the former short Conservative Administration; Mr. Ward Hunt was First Lord of the Admiralty, Mr. Gathorne Hardy was at the War Office. The new Chancellor of the Exchequer was Sir Stafford Northcote, author of a book on *Financial Policy*, which had become a standard work of reference,* who had been President of the Board of Trade, and then Indian Secretary in 1867 and 1868.

The policy of the new Government had been laid down by implication in the electoral address of the now Prime Minister when leader of the Opposition,—"a little more energy in our foreign policy, and a little less in our domestic legislation." And this policy was faithfully carried out. The home legislation of the Government was of the most humdrum and meagre description; their foreign policy—whatever may be thought of its wisdom—was at least active and energetic.

The Government was not formed until the latter part of February, and the first Budget of the new Chancellor of the Exchequer was introduced within a few weeks of his accession to office.† The finances of the country had been handed over in a most flourishing condition by the out-going to the in-coming Government. After meeting four millions of special charges, there remained a realized surplus on the financial year 1873 of the better part of a million, while for 1874 the estimated surplus amounted to the enormous sum of five millions and a half.‡

The expenditure of 1873 had been—ordinary £72,470,000, extraordinary £3,996,000: total £76,466,000. For the coming year the estimate of ordinary expenditure, "the estimate of our predecessors," was seventy-two and a half millions,‖ almost the

* Sir S. Northcote was Mr. Gladstone's Private Secretary during the time that the latter had been Vice-President and President of the Board of Trade under Peel.

† Budget Speech, *H.*, April 16th, 1874.

‡ The estimated surplus of 1874 is commonly spoken of as "the six millions surplus." The real surplus was only 5½ millions; the additional half million, making the six millions, was made up by bringing into account the interest on local loans. But this half million was immediately appropriated to the creation of terminable annuities, and was really altogether apart from the financial accounts of the year. See *infra*, *p. 180.*

‖ Including £100,000, the balance of the cost of the Ashantee war.

same as the expenditure of the past year, most of the items being identically the same. The revenue was estimated at just below seventy-eight millions, as against just over the realized seventy-seven and a quarter of the year before. Now, for the first time in the estimate of revenue, was included the full amount of increase of revenue which might fairly be expected to accrue in the ensuing twelve months from the growth of population, from extended trade, and from increased consumption.

The change of system had come about in this wise. When Mr. Gladstone appealed to the country on the question of the abolition of the income tax, it was necessary to prove that the abolition could be carried through without materially increasing taxation elsewhere. In the financial statement contained in his election address therefore, he took into account—and perfectly legitimately took into account—the full normal increase of revenue on which he and his financial advisers believed they could safely reckon within the year. His estimate of revenue, was ridiculed and denounced as immoderate during the election, but was in fact neither reckless nor excessive, as was amply proved, not only from the estimates presented and the remissions made, by his successor at the Treasury,* but still more from the actual receipts of the year.

Thus, in 1874, came into force a system of estimate which has ever since prevailed, namely, to take into account the expected annual increment of receipts due to the inherent vigour of the revenue itself. Twenty or thirty years before, when the trade, commerce, and wealth of the country were far less, the increment of revenue was smaller, while fluctuations were often greater, and no reliance could be placed on a natural annual growth of revenue. The usual system in those days was to take an average of revenue over a series of years, and to found the estimate of revenue on this

* "I am bound to say that they (the calculations made) entirely justified the expectations which the right hon. gentleman had in his mind at the time he penned his address."—Northcote's Budget Speech, *H.*, April 16th, 1874. The revenue for the coming year, subsequently to Mr. Gladstone's estimate, was somewhat affected by the disturbance caused to trade, since the election, in duty paying articles. The premature announcement of a large surplus, combined with the fact that the result of the election had practically decided that it should not all be applied to the income tax, gave rise to sanguine anticipations of remissions on the tea and sugar duties, with the natural result that large deliveries of these articles were kept back, to the benefit of the revenue of 1874.

average. Gradually this plan gave way to a system of basing the estimate for the coming year on the actual receipts of the previous year, without any allowance for increase, and with only such differences as would be due to any changes of taxation carried out in the previous year and affecting the current year. A slovenly system of estimate, but a system that possessed one advantage—it tended to the more rapid extinction of the debt. Under a system of loose estimates, the Budget estimate annually showed a smaller surplus than it would have done, if, in the basis of estimate, the natural increase of revenue had been taken into account. Hence appeared a smaller margin available for remission of taxation, or a larger deficiency to be made good by taxation; and taxation being thus kept at a higher figure than it otherwise would have been, the realized surplus of revenue over expenditure at the end of the year applied to the redemption of debt, was abnormally swelled.

The system introduced in 1874 of close estimates of revenue was distinctly an improvement, but it created responsibilities which have not always since been fully appreciated by the Finance Ministers of the day. It now became the bounden duty of the Finance Minister specifically to increase the annual charge for the debt; it became more incumbent on him to keep in hand a considerable surplus in order to meet the unexpected contingencies of the year, for the natural surplus had already been discounted. It became his duty more carefully to consider whether he could afford to relinquish revenue; above all, it became his duty to impose taxation when, every penny of probable revenue having been estimated for, a deficiency still remained. It must be confessed that neither in regard to the debt, nor in regard to the maintenance of a surplus, nor in regard to the imposition of taxation—for remission there has been but little opportunity—have successive Chancellors of the Exchequer always sufficiently appreciated the great change in the system of revenue-estimates instituted in 1874.

The new system once initiated, it was impossible for any Chancellor of the Exchequer to go back to the old; and so, willy-nilly, Sir Stafford Northcote was obliged to take in his own estimate the full revenue of the year. Taking into account the revenue that would come improperly into account in 1874 instead

of in 1873, in consequence of the postponement that had taken place* of delivery out of bond, the new Chancellor of the Exchequer, speaking with full knowledge, and after careful and repeated consultation with his financial advisers,† felt himself justified in calculating on a revenue somewhat in excess of that on which Mr. Gladstone had reckoned, and estimated it at £78,000,000. The expenditure was put at £72,500,000, and thus was available an estimated surplus of £5,500,000—the largest estimated surplus ever presented to the House.

Through a change of system and of accounts, this surplus was nominally swelled by a further half million. The interest received on the "loans" advanced by the Treasury to Local authorities, amounting to about £450,000 a year, was in the future to be credited to the miscellaneous revenue, instead of being paid as before into the Balances; while the interest on any debt incurred for the purpose of these loans was to be voted in the annual debt charge. Against the extra receipt of nearly half a million, some further terminable annuities were to be created, absorbing an equivalent amount of revenue. The surplus was thus really unaffected by the change, and remained still at five millions and a half.

The system of public loans to local bodies dated from 1792. In 1817, after the peace, when there was "surplus of labour and a deficiency of capital,"‡ the labour market had been greatly disturbed by the influx of disbanded soldiers and sailors. The Government felt obliged to take some means of giving "factitious employment," and they started public works, and for that purpose raised loans, which, in one way and another, had by 1842 grown to about three millions. In 1842, the system of advancing the money for these purposes directly from the Exchequer was

* The disturbance to trade in anticipation of an alteration of taxation is, said Sir S. Northcote, one of the "penalties we pay for levying a part of our revenue in the very convenient form of customs duty." It is a disadvantage arising out of the system of bonding. See *I. 251.*

† How far a Chancellor of the Exchequer should exercise his own discretion in the estimates that are made of the revenue, and how far he should be guided by the opinion of the permanent officials, is a moot question. But it seems clear that while in old days it was considered right for him to be bound by the estimates of his subordinates—and in those days the basis of estimate was a fixed and uniform one—of late years it has been possible, and it has been the custom, for the Finance Minister to exercise considerable discretion in the matter.

‡ Disraeli, *H.*, Dec. 3, 1852. See also Dec. 16.

instituted: and the amount to be annually placed to the credit of the Commissioners of Public Works was fixed at £360,000, the unexhausted credit running on from year to year. Considerable inconvenience arose from time to time from the fact that the Treasury had to honour the drafts of the Commissioners whenever they chose to issue them. It was to remedy this state of things, and in view of the great encouragement about to be given to the issue of loans,—that the Public Works Loan Act of 1875 was passed.* Under that Act, a separate bill was every year to be introduced detailing the estimated amounts agreed to by the Treasury, that the borrowing bodies would require in the year, and the sum thus voted was not to be exceeded.

Previously to 1829 the annual receipts from these local loans—both interest and repayment of capital—had been treated as miscellaneous revenue. On the report of the Finance Committee of 1828† the system was changed, and these items of accounts were kept separate and distinct from the ordinary revenue and expenditure, the receipts going to swell the balances, and the advances—when not raised by the issue of Exchequer Bonds or Bills—going to diminish them.‡ Thus practically these receipts, both principal and interest, were reissued in the form of fresh loans,‖ and went indirectly to the reduction of debt by, to some extent, obviating the necessity of the issue of Bonds or Bills to meet the demand for loans. The absorption, in 1874, of the annual interest on these advances** into the ordinary revenue would therefore to that extent annually diminish the amount applicable to the reduction of the national liabilities; and it was essential that an equivalent provision for the redemption of debt should be made. This was done by the conversion of a further seventeen millions of Savings Bank stock into terminable annuities to run until 1885, involving an additional

* See *H.*, February 11; May 13 and 24, 1875; Budget, 1876.

† Fourth Report of Finance Committee of 1828, *P. P.* No. 519 1828. See also *P. I. and E.* ii. 499.

‡ In his Budget of 1852, Disraeli, in order to increase his available revenue, had proposed to absorb the whole of this revenue—not only interest, but also capital repayment—for the purposes of the year. See Northcote, pp. 128–179; and cf. Fourth Report of Finance Committee of 1828 on the subject of the revenue.

‖ Up to 1887 about 12¾ millions sterling had been advanced from the exchequer balances for local purposes.

** The bulk of the annual receipts were so absorbed, but a portion accruing on certain advances, was left untouched.

annual charge during the eleven years of £445,000, exactly balancing the additional estimated receipt of about £450,000 a year.

But while for the moment the two accounts seemed to balance, as a matter of fact the redemption of the debt suffered considerable damage from the change. The issue of local loans was greatly encouraged in the few years following 1874, and the annual receipts from the interest rose rapidly from £467,000 in 1874 to £1,056,000 in 1879; local borrowing was then again checked, and in 1886 the receipts stood at £950,000, at which figure it still remains.* The annual interest payable on the unfunded debt issued in order to provide the money for these advances, rose likewise from £43,750 in 1875 to £341,000 in 1879, and to £478,000 in 1885, aggregating £3,800,000 in those twelve years. But the total receipts between 1874 and 1885, by which year the terminable annuity of 1874 was to come to an end,† were—after deducting the annual £445,000 of annuity up to 1885—£5,140,000, or more by £1,340,000 than the total payments. Thus the upshot of the arrangement of 1874 was that a great deal of revenue which formerly went to the reduction of the debt was intercepted and applied to the ordinary purposes of the year.‡

The change, as regards the public accounts, was that from 1874 onwards, an additional item was added to the miscellaneous revenue

* Sir S. Northcote pointed out in 1875 and 1879 that it was a great delusion to suppose that on the whole the Treasury gained by these advances. They made a small profit on solvent loans by being able to borrow on slightly better terms than they lent. But they had many bad debts, which very much more than swallowed up the profit on the good. Taking the whole period from 1792 to 1878, and excluding advances of the nature of grants, about £85,900,000 had been advanced. The repayments and outstanding good debts amounted to £89,900,000, and that was the whole amount the Treasury had received in interest on their debt, some of it outstanding as much as seventy years was £4,000,000, a sum estimated to be at the average rate of only 12*s.* per cent. on all money that had been advanced. (*H.*, Feb. 11, 1875, and August 9, 1879.) In addition to these loans very considerable sums have been in the last seventy years either at the time of issue or shortly after granted as gifts, as Mr. Goschen in his Budget Speech of 1887 stated that the total advances to local bodies up to that time had been £106,000,000, of which £57,200,000 had been repaid, and £11,600,000 absolutely remitted, leaving £37,200,000 outstanding.

† The local loans annuity of 1874 was like all the other annuities falling in 1885, dealt with under the scheme of 1883, and practically re-issued.

‡ In 1887 the whole system of accounts was again changed. The finance of the local loans, was, and rightly so, separated altogether from the Imperial Budget, and both the interest paid and the interest received were taken out of the national balance-sheet and placed in a local loans account, and thus ceased to have any connection, or interdependence with the question of the reduction of the National Debt.

on the one side, and to the debt charge on the other; to an amount for 1874 of some half million on each side.

For the surplus of five millions and a half there was no lack of claimants. The Chancellor of the Exchequer amusingly detailed the many deputations which had waited on him, each demanding some share of the spoil.* But, "in the multitude of counsellors there is safety, either a deputation answered itself, or one deputation answered another, or if they did not do so, the press was good enough to answer them next morning." The Chancellor of the Exchequer had not committed himself to any of the forms of relief proposed, he had taken "the most dignified course of saying nothing in return;" † which was just as well, seeing that the aggregate demands of the deputations came not to six, but to nearly sixty millions!

The division of the surplus was not however a difficult matter, and seldom has a Chancellor of the Exchequer been able to give more general satisfaction. A considerable grant was given in aid of local taxation; the remainder of the sugar duty was remitted, the horse duty was repealed, and another penny of income tax was taken off, reducing it to twopence—a rate designated in the Queen's Speech on the prorogation in August as "little more than nominal."

The advocates of the repeal of the malt duty were again doomed to disappointment. They had to be put off with smooth words and promises of future consideration, which, needless to say, as expenditure grew and revenue slackened, could never be fulfilled. The fact of the matter was, in this and in other cases, that, unfortunately for the Chancellor of the Exchequer, his chief and his party when in opposition, had put their hand to so many promissory notes, that their assets, though large, only enabled them to pay a few shillings in the pound, on any one engagement, and they

* There is a story told, that on one occasion when Pitt was Chancellor of the Exchequer, and supposed to be in the possession of a surplus, visiting Cambridge and attending Church, the preacher took as his text, "There is a lad here who hath five barley loaves and two small fishes; but what are they among so many."

† In his charming lecture on "Nothing," Sir S. Northcote told how he remembered asking "a great parliamentary authority, . . on one occasion, during a Debate, 'Shall I speak next?' and he said, 'Have you anything to say?' I replied, 'No, I have nothing to say.' 'Well,' he said, 'say nothing.'" (*Lectures and Essays*, by the Earl of Iddesleigh, p. 232.)

could not afford to throw money away in redeeming promises to which they had not absolutely pledged themselves.

The Conservative party, and especially their Leader, were by speech and resolution deeply pledged to deal with the question of Local Taxation, and to give considerable relief to local burdens. In 1850, and again in 1851, Mr. Disraeli, as the Leader of a then somewhat dilapidated party, had moved, and had very nearly carried, a resolution which, if adopted, would have practically pledged Parliament to transfer to the Consolidated Fund items of charge amounting to some two millions a year, hitherto falling on the rates.* Between 1851 and 1871 the question had made but little progress. In 1871, however, the Liberal Government promised, that if, and when, their County Government Bill should pass, they would hand over to the new local authorities the house duty producing some £1,200,000 a year. In 1872, they were defeated by a majority of 100† in resisting a motion by Sir Massey Lopes, who proposed to transfer to the Exchequer "either in whole or in part . . the charges imposed on ratepayers for the administration of justice, police, and lunatics." In 1873, the Conservative party were so far committed to the policy of local relief, that they unanimously supported a motion which practically proposed that the surplus, instead of being applied to a further reduction on the sugar duties, should be utilised for the purpose of relieving the rates by means of Imperial grants.‡

This question of Imperial relief to local rates has always been one of those convenient questions, which, as Thiers said of the Republic, "divided the least;" people are always ready to support what Sir R. Peel once called "the vulgar expedient of drawing a draft on the Consolidated Fund." In 1874 the argument for relieving local burdens by means of Imperial grants, was that, especially of late years, much expenditure of a really national character, in connection with Acts of Parliament bearing on such matters as sanitation, education, vaccination, roads, dwellings, &c.,

* See *H.*, February 13, 1850—the motion was lost by a majority of 273 to 252—and *H.*, February 13, 1851, when Disraeli was defeated by a majority of only fourteen votes, 267 to 281.

† By 259 to 159; *H.*, April 16, 1872.

‡ *H.*, April 28 and May 1, 1873. There was no division.

had been cast on the locality. Where a difference of opinion arose, was on the question of the best mode of carrying out the policy of relief. Should the grant be given in combination with the general reform of Local Government and Local Taxation? Should reform be necessarily combined with relief, or should the latter be given as quickly as possible, without waiting for the happy moment when reform could not only be undertaken, but carried through? The question of Local Taxation and Imperial Assistance ought to be solved in combination with that of County Government, said the Liberals, otherwise you throw away the means of accomplishing the latter. It will be long indeed before the existing chaos of areas, rating, and authorities can be thoroughly reformed, unless there be a powerful financial lever wherewith to overcome the apathy and the opposition which will certainly arise. To hand over money to the unreformed bodies in the form of Imperial Grants, will be merely to encourage extravagance without obtaining efficiency; to increase the burden on the taxpayer with but slight relief to the ratepayer. To put Relief before Reform, is to put the cart before the horse—and to stay all progress. Not so, said the other side. It is indeed possible that County Government will be long in coming, but the question of Imperial relief to local rates is immediate and pressing, especially in connection with the heavy burden of the rates on land, and it is unfair and inexpedient to postpone Relief until some moment in the dim and distant future when Reform also can be accomplished.

The late Government had introduced in 1871, but almost immediately withdrawn, a County Government Bill dealing with the question of Local Taxation. Their successors, were not only pledged to the extension of the system of grant, but also to deal with the question of reform as one of their chief measures. Yet, their President of the Local Government Board was not in the Cabinet; and though they endeavoured from time to time to deal with the fringe of the subject, there was no attempt at reform until 1878, when a cramped and crude measure was introduced —and dropped.

But whatever were to be the future dealings with the question of local government reform, whether it was to be dealt with piecemeal or as a whole, the Government having, in 1874, a very large

surplus, and being about to remit taxation, proposed to attack the question of local burdens—"upon the whole," as the Chancellor of the Exchequer said, "the object of the highest national interest at the present time" *—by relieving the local rates at once of certain charges for police and pauper lunatics. They gave, moreover, a promise, fulfilled in 1877, that further relief should be given by the transference to the Home Office of the cost and the care of prisons. Further, Government property was no longer to pay merely a nominal sum, but was to contribute fairly to the local rates.

The total immediate contribution towards the local rates would amount to a million and a quarter a year,† a sum that would slowly grow as pauper lunatics increased and police were multiplied. The transference of the prisons would later on give a further relief of about £600,000 a year. The total addition thus made to the Imperial grants under the scheme of 1874, grew in the next ten years to about two millions and a quarter.‡

* The question of local taxation, added the Chancellor of the Exchequer, is that which "we believe to be the most important question of the day," and a reform "which cannot be accomplished at a blow . . . is a task to which we are proud to devote ourselves; in which, with the blessing of Providence, we hope to succeed, and from which, as far as our energies and our abilities go, we shall not flinch." Budget Speech, 1874, *H.*, April 16.

† In respect to the pauper lunatics, the Government would contribute 4*s.* a week towards their maintenance, a sum that was estimated to be about the difference between maintaining a pauper and maintaining a pauper lunatic. In the case of the police, no new principle was introduced. The Government already bore a quarter of the cost of pay and clothing; this was to be increased to one half.

In regard to the rating. Previous to 1874, Government property, unless it happened to amount to more than one-sixth of the whole rateable value of the parish, had contributed nothing to the local rates. It was now to be more fairly rated. The annual contribution towards the pauper lunatics would amount to £480,000 a year; towards the police £600,000; and the additional rating £170,000; a total of £1,250,000.

‡ The total of the local grants-in-aid has of late years rapidly risen. Between 1864 and 1874 they increased by a million, from £1,760,000 to £2,760,000. Between 1874 and 1878 they rose by three millions to £5,770,000. In 1886 they stood at £5,850,000 a year.

While these pages are passing through the press, the Local Government Bill of 1888 has been introduced, under which certain local subsidies mostly granted since 1874 (and amounting to £2,600,000) will disappear, and in lieu of them Imperial taxation to an amount of £4,700,000 will be handed over to the new County Boards. The taxation thus transferred is to consist of half the probate duty (£1,700,000); existing intoxicating liquor licences (£1,400,000); existing "establishment" and other licences (£1,600,000). In addition, new licence duties on "wheels" and on horses, to produce about £840,000, are to be imposed and handed over to the local authorities, making the total Imperial contribution about £5,600,000, against a saving of £2,600,000, or, in all, an additional contribution from the taxes to the rates of three millions a year. (See C. 5344, and *P. P.* 123 of 1888, and Budget Speech, 1888, *H.*, March 26.)

The great heads of custom and excise revenue had by 1874 been reduced to six, and many people thought that Mr. Disraeli was right, when, in one of his late election speeches, he had declared that it would be "most unwise . . to extinguish any branch or source of revenue."* But this opinion was not shared by Sir S. Northcote,† and the action of the latter, was, in any case, justified by the fact, that in consequence of the reduction given the year before, the sugar duty had been placed on so uneconomical and unsatisfactory a footing as to render final abolition inevitable. Apart from this, the sugar duty was of all remaining duties the least defensible. The duty was not a uniform duty, and, therefore, easily assessed and collected, but was levied at different rates on different qualities of sugar; and therefore required strict regulation and considerable official interference. It was imposed on a wholesome article of general consumption. It was imposed on an article entering very largely into divers processes of manufacture, all of which were thereby greatly hampered. The sugar trade gave employment to much British shipping, and was the staple industry of our West Indian Colonies. Thus, if any branch of indirect revenue were to be relinquished, the sugar duty could clearly claim priority of treatment; ‡ and it is, I think, clear that Sir S. Northcote was right to devote a portion of his large surplus to the abolition of the remnant of the duty.

The repeal of the sugar duty marked another step taken towards arriving at "a free breakfast table." The abolition by Peel of the tax on corn was the first; the abolition by Gladstone of the duties on butter, eggs, etc., was the second; the abolition by Northcote of the sugar duty was the third step. The abolition

* "If there be a surplus which permits us to reduce duties on articles of general consumption, I am for reducing them. But I say so with this reservation—that I think it most unwise, after all the reductions we have made upon articles of general consumption to extinguish any source or branch of revenue that exists. I think that policy is one which has been carried already to too great an extent." Mr. Disraeli at Newport Pagnell, February 4th, 1874.

† Even after the sugar duty had been relinquished, he declared that there would be left "plenty of channels through which the Exchequer will replenish itself." There was always left the revenue from spirits, and increased taxation from spirits "is one source of revenue which is still open to us upon an emergency." A prediction falsified ten years later, when an emergency, and a grave emergency, arose, and an attempt further to increase the tax on intoxicants was not successful.

‡ With the repeal of the sugar duty disappeared also the duty on dried fruits, succades, &c., taxed on account of the sugar they contained. See *I. 328, n.*

of the tea duty and the coffee duty alone remain for accomplishment.

The horse duty and the horse dealer's licence constituted vexatious and unnecessary taxation on trade; while, according to the Lords Committee* that had lately reported on the subject, they —as well as the race-horse duty—constituted a serious hindrance to the improvement of the breed of horses. The duty on horses and mules was originally imposed by Pitt in 1784,† at the rate of 10*s.* a horse for riding or driving; but, carrying out his favourite plan, he soon turned it into a progressive tax. The charge was gradually increased in amount, and by 1812 it was £2 17*s.* 6*d.*, if one horse were kept, rising to £6 12*s.* on each horse, if twenty or upwards were kept. In 1853, when Mr. Gladstone had reformed the assessed taxes, he had lowered the duty and reduced by one half the twenty different charges then existing. But even so, the duty was a complicated one, with several exemptions, definitions, and charges, varying according to whether the animal were kept for pleasure, or profit, or of necessity. Mr. Lowe, in 1869, when he had swept away the assessed taxes and had reimposed them in the form of licence duties, had abolished these distinctions, and had imposed one uniform charge of 10*s.* 6*d.* for each horse used—with the single exemption for horses used "in the course of trade or husbandry."

The duty on horse dealers, imposed also by Pitt in the same year as the horse duty, was, in 1869, changed into a uniform licence-duty of £12 10*s.* The race-horse duty, imposed in the same year as the other horse duties, at the rate of £2 2*s.* on "every horse entered for a race," gave rise to considerable difficulty and trouble in collection. In 1835 the tax—then levied at the rate of £3 10*s.*—was changed to a duty on "every horse kept or used for the purpose of racing," and, finally, in 1856—when amounting to £3 17*s.*—it was charged on "every horse starting for any plate, prize, or sum of money." Mr. Lowe, while dealing with the other taxes on horses and horse dealers, had eschewed the attempt to deal with this duty, as "too high

* *P. P.* 325 of 1873.

† Horses used by "farmers, bailiffs, &c., rectors, vicars, curates, Roman Catholic priests or Protestant dissenting ministers, physicians, common carriers," were distinguished from "other horses and mules." (C. 82, 1870, p. 118.)

a flight for him."* The total number of horse licences in 1873 was 834,000, and of licences to horse dealers 1,380. The race-horse licences numbered 1,500. The total loss of the repeal of the duties would be about £480,000.†

The diminution of local taxation, and the abolition of the income tax, were, Mr. Disraeli had written in his counter-blast at the general election, measures which the Conservative Party have always favoured. But, as the election went on, Mr. Disraeli tended rather towards the idea of allowing the income tax to die a natural death by means of successive remissions, than to that of devoting the whole of the surplus to its summary extinction.‡ And in 1874 the Government and the Chancellor of the Exchequer, having had but a short time in which to prepare a Budget, wisely determined that the reform and abolition of the income tax ought not to be carried out "at six weeks' notice."‖ The question was to be postponed until the time when they would be in a position "to consider it in all

* Until 1887 "Queen's Plates" used annually to be given to be raced for, as a supposed encouragement to the breed of horses in England, and still are given in Ireland and Scotland.

† The horse duty and the horse dealer's duty are now (1888) about to be revived by Mr. Goschen. The horse duty is to be at the rate of £1 a year a horse on "pleasure horses," and £5 on racehorses; the horse-dealers are to pay a composition of £15. The estimated yield of these taxes as now to be imposed is £540,000. See Budget Speech, *H.*, March 26, 1888.

‡ "But though I think the income tax is a war tax, and should not exist except when we are in a position of war, we find that tax now in operation, and I certainly do not consider I am relieving the country of a burden by abolishing it and substituting for it taxes much heavier and more vexatious. Let the income tax die naturally. You have a surplus. You need not devote the whole of that surplus to the remission of the income tax. A part of it you may apply to other parts of public policy, but every one feels that in a very short time the income tax under those circumstances would disappear." Again, "I remember that a wine merchant sent to the late Lord Derby some sherry, and told him if he drank it he would never have the gout again. Lord Derby, having tasted the sherry, sent it back, saying, 'I prefer the gout.' Now, gentlemen, I cannot help fancying when this grand financial scheme is worked out, and when the country really understands what is meant (by the 'adjustments of taxation') they will prefer the gout." Mr. Disraeli at Aylesbury, February 1st, 1874.

‖ "Such a mighty structure as that is not to be lightly thrown down at six weeks' notice, and, therefore, although we certainly do not profess any enthusiastic admiration for the faults of the income tax; although we are ready to admit, in the language of one of Shakespeare's clowns when speaking of his mistress, 'she hath more faults than hairs'—yet, bearing in mind that it has 'more wealth than faults,' we think it ought to have a little further trial before we decide what is to be done with it. We therefore set that question aside, and whatever we do in the present year, we have determined not in any way to tamper with the structure of the income tax." (Budget Speech, 1874.)

its bearings, and in all its relations to the other branches of the financial system, and until we are able to make a proposal that will, as it is said, hold water in all its parts." But opportunity of dealing with and deciding the question never again arose. Increasing expenditure soon put a veto on Abolition; and Reform seems to have been postponed until the Greek Kalends by the mutual consent of all Chancellors of the Exchequer.

All that was immediately to be done in regard to the income tax was to take off another penny; reducing it to its lowest point, twopence in the pound. As a tentative measure, the reduction was, no doubt, justifiable, especially in connection with the other remissions which were given, and in view of election declarations. But it would have been economically unsound, to have retained the income tax for any length of time at such a low figure as 2*d.*, the cost and friction of collection being disproportionate to the receipts; but this, to judge by the argument of the Budget speech of 1875, seems then to have been the idea of the Chancellor of the Exchequer, though the course of events soon changed the policy.

The estimated surplus of 1874 amounted to £5,492,000. The income tax remission would cost £1,840,000—£1,540,000 in the year, and £300,000 the next. The abolition of the sugar duty would cost in gross £2,000,000; * that of the horse tax £480,000. In all there was a total estimated loss of revenue of £4,320,000, of which £4,020,000 would disappear in the current year, and £300,000 in 1875. The total grant for local purposes—to that extent increasing the expenditure side of the account—was £1,250,000; the burden on the current year would, it was estimated, amount to £1,010,000; to be increased by a further

* These are the figures as given in the Budget Speech. But it is clear that the whole of the loss from the abolition of the sugar duty, which could not take effect from the first day of the financial year, would not fall on the current year. Subsequently, indeed, Sir S. Northcote himself mentioned, that part of the loss would fall on the following year, and the *Statistical Abstract*, 1880 (Table 8) gives the "Budget estimate" of the loss on sugar "in the aggregate," £2,000,000; "on the year," £1,800,000. Thus the correct figure would probably show a gross estimated loss in 1874 of £3,820,000, instead of £4,020,000, and a further loss in 1875 of £500,000 instead of only £300,000, leaving a surplus of £660,000 to be carried forward in 1874.

£240,000 in future years.* A total deduction of £5,030,000 had thus to be made from the surplus, leaving £462,000 to be carried forward.

It was certainly very unfortunate that with "one of the greatest opportunities which had ever presented itself to a Ministry in any one financial year" as the Chancellor of the Exchequer himself said, he should have been precluded, both by the shortness of time for consideration, and by the many pledges which his Party had given, from dealing in a thorough and comprehensive way with the financial situation, and from utilizing the surplus for the purpose of overhauling and reforming the whole fiscal system. As it was, he was only able to give a sop here, a remission there, with no particular method, and with no particular advantage, other than that which always springs from every reduction in taxation. It was impossible, said he to "deal with any particular tax without taking into consideration the whole system of taxation." A "full and careful consideration of the whole system of taxation of the country" was to be "brought forward deliberately and after full reflection next year."† But

> "He that will not when he may,
> When he will he shall have nay."

The morrow—like the Spanish *mañana*—never came. The expenditure rose, the revenue lost its elasticity; the surpluses became small by degrees, and beautifully less; deficits supervened and all chance of fiscal reform came to an end.

* The actual outlay in the year was only £512,000. See *infra*, *p. 192*, *n.*
† Northcote, *H.*, July 3rd, 1874.

# CHAPTER XXVIII.

## UNEVENTFUL.

### 1875.

But twelve months had passed, and already the high financial hopes, the promised financial reforms, had faded into the dim and distant future. Already "consolation" had to be gathered from the fact, that, to use the words of the Chancellor of the Exchequer, the finances were, "happily, not such as to cause any great anxiety." * Expenditure had not only sprung up and choked the surplus, but seemed to be already in a fair way to necessitate increased taxation. "I hope it may be found," Sir Stafford Northcote had said, in presenting the estimates of expenditure of the previous year—the estimates of his predecessors accepted by his colleagues and himself—"that they will be substantially the estimates with which we shall go through the year." Rash prophecy! Economy was already at an end. The expenditure of the year (after adjustment,† and after deduction on account of the local grant‡) had considerably exceeded the estimated expenditure.

* Budget Speech, *H.*, April 15th, 1875.

† A deficiency on 1873 of no less than £440,000 (Navy, £240,000; Telegraphs, £110,000; Civil Service, £90,000) had to be met in 1874. On the other hand there was paid in 1875, a deficiency amounting to about £265,000 for 1874 (on the Navy, £238,000). These deficiencies are above adjusted to their right years. Those of 1873 and 1874 were the last considerable deficiencies which occurred. The Naval deficiency of 1874 had, said the First Lord of the Admiralty (*H.*, March 13, 1876), arisen without the knowledge of the heads of the departments—and, certainly, these constant deficits showed great lack of proper financial supervision at the Admiralty. See *II. 40.*

‡ The subvention to the local rates—in other words, the increased expenditure of the year on this head—had been originally estimated at £1,010,000. In consequence, however, of many of the local budgets being made up only after the close of the financial year, £512,000 only, instead of double that sum, had actually been paid over within the year. For 1875 the payment was £1,154,000, a sum which would increase in future years, as police, lunatics, or paupers developed in numbers.

The chief increase had been on the Navy,* the Civil Service, and the Telegraphs. Within a few days after coming into office in 1874, and between the introduction of the Budget on April 16th, and its discussion on April 23rd, the new First Lord of the Admiralty, Mr. Ward Hunt had made an alarmist statement about the condition of the Navy.† He had asserted that, while there were in all forty-one sea-going ironclads, only fourteen were available for immediate service, and "the state of many of the ships, not to put it too strongly, is anything but satisfactory." "For my part," he said, "it must be understood that I do not mean to have a fleet on paper: that, whatever ships appear as forming part of the strength of the Navy must be real and effective ships, and not dummies." "It was not only (as Mr. Goschen subsequently said) what he said, but the manner in which he said it," which made the matter seem a very grave one, and seriously alarmed the public; and it was fully expected that the Government would come down to the House, and ask for immediate millions, in order to remedy this disastrous state of things. However, the Chancellor of the Exchequer had said nothing about increased expenditure on the Navy in his Budget statement, and in the course of the debate on the Budget, subsequent to Mr. Ward Hunt's alarming speech, being interrogated on the subject, he pooh-poohed the idea that anything more than a mere trifle would be required by the Admiralty. "He stood by his estimates both of revenue and expenditure." It would be "a reflection on the Government of the most serious character if between Monday and Thursday they were to alter the whole scheme of their expenditure."‡ Then Mr. Ward Hunt changed his tone. He had not, he declared, intended to scare any one; he had not "described the state of things as disastrously bad; he had only spoken of it as unsatisfactory." ‖ And the public learnt with a mingled sense of relief and amusement that all that

* The naval estimates were increased by £100,000, a grant for another Arctic Expedition. The late Government had fitted out a scientific expedition and had sent the "Challenger" round the world; a voyage which no doubt in its results was worth the money expended on it. They had incurred obloquy by refusing to spend money on another Arctic Expedition. The new Government now gave £100,000 towards another of these hazardous attempts to discover the north-west passage, a passage which, if it exists, would be absolutely useless.

† *H.*, April 20th, 1874.

‡ *H.*, April 23rd, 1874.

‖ April 30th, 1874.

was immediately wanted to create an ironclad fleet was £150,000, about equivalent to a quarter of the then cost of one first class man-of-war.* This sum was, however, said the First Lord, "not the measure of the deficiencies of the late Government, with regard to the Navy," and further sums would be probably required in future years.

The marked deficiency, on which Mr. Ward Hunt had most strongly animadverted in 1874, had been in armoured ships. The next year he commented strongly on the grossly deficient state of the unarmoured fleet, and the totally inadequate supply of ships for "relief;" † and to remedy this state of things £450,000 extra was applied in 1875 to the purpose of building gunboats and sloops. By 1876, the First Lord was able confidently to assert that the state of the ironclad fleet was such, that "even in case of the combination of France with any other power, we might still consider this country safe as regarded our ironclad fleet" ‡—a statement which, it must be confessed, pretty well proves that the pessimistic views in regard to the Navy, put forward in 1874, had been considerably exaggerated. In the two financial years, 1874 and 1875, about a million more was spent on the Navy than in 1872 and 1873; and meanwhile the *Vanguard*,‖ representing a good half million of money, had gone to the bottom, leaving on balance an expenditure hardly sufficient it may be thought to have converted a "paper fleet" into one invincible by any two Continental powers combined.

Doubtless, Mr. Ward Hunt was somewhat rash and hasty in his assertions, and rather over-coloured the state of the case. New to his office, he fell an easy and not unwilling victim to the Cassandra-like views of the permanent officials at the Admiralty. Having yielded at first too much to these permanent alarmists, he probably then allowed himself to be

* The Naval Supplementary Estimates amounted in all to £200,000. But this sum included £55,000 for dockyards, of which £50,000 was for wages, and £5,000 for repairing a depôt ship at Hong Kong, expenditure which (as Sir William Harcourt said) could hardly establish our European influence in the East. It was hoped that the £150,000 to be applied to renovating the fleet might be increased by another £50,000 to be saved on the store vote.

† According to Mr. Ward Hunt, while 118 ships were absolutely requisite for "reliefs," there were only 105 available.

‡ *H.*, March 13th, 1876. Mr. Ward Hunt added that there were now twenty effective ironclads ready for immediate service against fourteen in 1874.

‖ September 1st, 1875.

overawed by the permanent economists and optimists at the Treasury. In all probability there was a good deal of truth in the assertion, that the expenditure on the Navy under the late Government had been insufficient, and that, in many ways, the Navy was lacking in essentials. Indeed, the Liberal Government themselves had, by considerably increasing their expenditure for 1873, and their estimates for 1874, to some extent allowed that the expenditure had been too much reduced of late years.* The actual expenditure (after adjusting the deficiencies) on the Navy, which in 1868 had been £11,000,000, and by 1872 had been reduced to £9,500,000, was raised in 1873 to £10,400,000; in 1874, reached £10,680,000; in 1875, £10,900,000; and in 1876, £11,290,000.

The history of the Navy during this particular period, from about 1870 to 1877, is not very pleasant reading. It was one long chapter of accidents. The Naval Administration of the Liberal Government had been unfortunate; and not very long after their dismissal, fresh Admiralty "scandals" arose, to prove that incompetency of management is not confined to one party or to one person, and that accidents will happen even in the best regulated Governments.† The *Vanguard* was run down by the *Iron Duke*.‡ Then the *Iron Duke* herself (if a duke can be a "she") nearly went to the bottom through the carelessness of her engineers. The *Monarch* came into collision with a friendly merchant ship, and later, a fearful explosion occurred on board the *Thunderer*. On the top of these casualties and losses, the Admiralty managed to get into a scrape with their "slave circular." And, it appeared to the public that it was with a view of shielding the superior, at the expense of the inferior officers, or to avoid disagreeables to those in high places, that they reversed the finding of the Court-

* Part of the increased expenditure on the Navy in 1873 was due to the vast increase which had taken place in the price of all materials for ship building, &c. But this cause of increase only accounted for a portion of the increase which took place.

† The Duke of Somerset, so many years the First Lord under Palmerston, once said that "The mind of man does not go back to the time when the management of the Navy by the Admiralty was not a subject of dissatisfaction." (Quoted in Lord Brassey's *Navy Annual*, 1887.)

‡ Mr. Ward Hunt at the Mansion House (November 9th, 1875), in commenting on the accident, infelicitously congratulated the country on the great "destructiveness" of the *Iron Duke*. But the country was disposed to think that a less costly experiment on the nature of an ironclad ram might have been contrived. Mr. Ward Hunt afterwards declared (*H.*, Feb. 28th, 1876) that he had been misrepresented and misreported.

Martial on the loss of the *Vanguard*, and held no Court-Martial at all on the commander of the Queen's yacht when it ran down the *Misletoe*.

But while the public were scared and scandalised on the subject of the Navy, Mr. Gathorne-Hardy steadily and satisfactorily continued the policy of his predecessors in regard to the Army, and without those girdings at the imbecility and incompetence of his predecessors which were so prominent in the speeches of the First Lord. It was, indeed, thought necessary, in 1876, to introduce the so-called "Army Regulation Bill," stigmatised by the opposition as a reversal of the policy of free and unpurchaseable commissions.* But, with this exception, the system of short service, of reserves, of localization, of interchangeability of commission between the regulars and the militia, the welding of the regulars and the auxiliaries into one harmonious whole, was substantially carried through. A system of retirement was initiated. The pay of the non-commissioned officers was raised, and that of the regulars was increased by two-pence a day in the form of deferred pay; while the pay of the reservists was also increased during the time that they were called out for drill. The immediate cost of all this additional pay was not very large—some £120,000 a year; but the amount of the deferred pay would increase year by year as a larger number of men completed their term of service.†

* By the terms of the Act, no step of promotion could indeed be purchased, and exchange could only be made between officers of the same rank and length of service. Subject however to this proviso, any officer who desired to exchange from a regiment ordered to or quartered in a locality or climate disagreeable to himself could strike a bargain and exchange with another officer in more enviable quarters. As Mr. Trevelyan—the real author of the abolition of Purchase—put it, "The poor men are to serve their country at Bermuda and Hong Kong, and the rich men are to serve their country in the Phœnix Park or Pall Mall." The objection taken was not to exchanges, for exchanges under the proper supervision of the War Office were acknowledged to be often expedient on military or personal grounds, but to the power given of purchasing exchanges; and of thus again, as was alleged, reintroducing that system of vested interests which the nation, at so much trouble and expense, had succeeded in eradicating. On the other hand, the supporters of the proposal argued that rich and poor officers, and especially the latter, would alike benefit. The one would suit his convenience, the other would suit his necessity; while, as the exchanges could only be between officers of the same rank and footing, no "promotion" could be in any way purchased thereby.

† Mr. Gathorne Hardy's estimate (*H.*, March 2 and March 6, 1876) was that the cost of the deferred pay would from the £31,000 of 1877, slowly rise, and by 1890 reach its maximum of £325,000 a year. That was an estimate founded on an establishment (excluding India) of 133,000. In 1887, on an establishment of 138,800, the amount (for England) had reached about £300,000; the total, including India, amounting to £450,000. See Army Estimates, 1887, pp. 7 and 20.

The revenue of the financial year 1874 had scarcely suffered at all from the effects of the depression already beginning to make itself evident. The receipts from the taxes showed a substantial elasticity, which had, however, for the most part been already taken into account in the estimate. The expected revenue had been £74,425,000. The total receipts amounted to £75,000,000.* The expenditure for 1874 had been £74,330,000, against an estimate of £74,000,000, leaving a realized surplus of nearly £600,000.

The Budget of 1875 was itself a very tame affair, and contained but one proposal of any importance; and the speech with which it was introduced, though clear enough, never rose above a mediocre level.† For the coming year the expenditure was estimated at £75,270,000, showing a considerable increase; and the actual result was still worse: no savings, no economy, and a total expenditure in excess of the estimate—of late an unusual event. The revenue was cautiously estimated at some £800,000 of normal growth; an estimate of increase which, though considerably less than that of previous years, was, under the circumstances of the times, by no means too cautious.‡ With revenue £75,685,000 ‖ and expenditure £75,268,000, there was left a "very small and

* Two points require notice in connection with the miscellaneous receipts. A sum, due in 1874, of some £300,000 (about half Indian army receipts, and half repayment from the Abyssinian vote of credit) was deliberately held over by the Chancellor of the Exchequer until the following year. The excuse offered was that, as there had been a miscalculation of the amount of local subvention which would have to be paid in the year, it was desirable to keep something in hand to help to meet the increased subvention in the coming year. But it is clear that if such a loose system of accounts were allowed to prevail, all parliamentary control over the finances of the year would be gone; and that "very mysterious item," as Sir S. Northcote once designated the "miscellaneous revenue," would become very much more mysterious still. The second point was this. The working capital of the "Treasury Chest" had been reduced by £300,000, and this sum had been paid into the Exchequer, and had been used as a current receipt. But the "Treasury Chest" is simply an Exchange Bank conducted by the Treasury in order to facilitate its various transactions in different quarters of the globe. A few years before the working capital of the bank had been reduced to £1,300,000; and this year it was further reduced to £1,000,000. But the £1,300.000 was distinctly capital and not revenue; and the £300,000 thus repaid should unquestionably have been applied directly to debt reduction, and not been absorbed into the ordinary revenue of the year.

† *H.*, April 15, 1875.

‡ The financial year 1875–6, said the Chancellor of the Exchequer, was "a model year for the financier." In it there fell no Easter day, nor Good Friday (and each holiday involves a considerable loss of revenue to the Exchequer), while, as it was leap-year, an extra day's revenue would be received.

‖ The miscellaneous revenue included the £300,000 improperly kept back the previous year.

unsatisfactory" surplus of £417,000, and one comparing very unfavourably with the large "basis" surpluses of previous years. Indeed, if it had not been for the change of system in the mode of estimating the revenue, there would have been an estimated deficiency instead of a surplus.

And even of the small and unsatisfactory surplus but half was really available. An expenditure of something under two hundred thousand pounds for Irish education grants was excluded from the estimate;* the Prince of Wales was to visit India, and the visit would cost some money, but nothing was included in the estimate for the purpose.† Remission of taxation was clearly out of the question. And all that was done in this way was to utilise some £60,000 in simplifying and modifying, for the benefit of the smaller brewers, the varying scale of the brewers' licence duty, into which the hop duty had been commuted in 1862.‡

The surplus was thus practically exhausted, and with it disappeared all the hopeful promises and sanguine expectations of financial re-adjustment and general overhauling of taxation indulged in during the previous year. In the present state of the finances it would be unwise, argued Sir Stafford Northcote, to attempt to revise the system of taxation. Such a revision or re-adjustment might indeed place the finances in a better position; but then, on the other hand, we might "find ourselves in a worse position in the end." Indeed, now that the revenue derived from them was so urgently needed, the taxes themselves seemed on the whole to be less faulty than they had appeared the year before. The objections to the income tax, said the Chancellor of the Exchequer, "press a great deal more against the tax when it is high than when it is low;" and the special objection, on the ground of its inequality, "fades almost into insignificance when

* The vote for Irish education was omitted from the estimates, because it was uncertain to how much it would amount. The Government had introduced, and hoped to pass, a Bill, which if passed would considerably increase the vote, which for the previous year had amounted to £118,000. It was known that the amount of the grant could not possibly be less than this, and the only question was by how much it would be exceeded. Yet, because the Treasury were unable accurately to forecast exactly the amount that would ultimately have to be paid in the year, the whole of the item was deliberately omitted from the original estimate of expenditure. The ultimate requirements came to £185,000.

† The ultimate outlay was £102,000.

‡ The duty was reduced to a uniform rate of 12*s.* 6*d.* for every 50 barrels brewed.

you keep the tax at a low rate. . . The uncertainty which has attended for many years the use to which the income tax was put (for great reforms and great experiments) and the rate at which it was likely to be levied from year to year . . made the tax much harder and more oppressive than it would be if it were kept low, uniform, and, as far as possible, steady . . With a prospect before us of a fair annual growth of the revenue and a reasonable hope and trust in the prosperity of the country, we may say that this use of the income tax may be considered to be at an end. We may, in asking you to renew the income tax at 2*d.* in the pound, do so with the hope and belief that it may be regarded as a tax useful in point of amount, but as held in abeyance—ready only to be used for some great emergency, and not to be called upon for trivial occasions."

But, though no surplus was forthcoming, Sir Stafford Northcote proposed to make, what his chief afterwards called a "frank and vigorous effort," further to reduce the National Debt, by means of a new form of Sinking Fund. This matter is, however, of sufficient importance to merit a chapter to itself.

# CHAPTER XXIX.

## THE NEW SINKING FUND.*

1875.

THE national debt† may be said to date from 1694, when the Bank of England was formed. There had been, indeed, previously to this, debts owing by the nation or the sovereign, for money, begged, borrowed, or stolen by King or Government.‡ But the loan of £1,200,000 made to the Government by that institution, in consideration of their Charter,‖ constituted the first permanent debt.

* See also *Chapter XX.*, "Debt Reduction."

† For the history of the Debt and of the different Sinking Funds, see especially Coxe's *Walpole;* Lecky, vols. i. and v.; Mahon, chap. xvi.; Macaulay, vols. i. and iv.; Massey, chap. 29; and Bright's *History;* Sinclair's *History of the Public Revenue;* Tomline, Gifford, and Stanhope's lives of *Pitt;* Price's, Hamilton's, and other essays in Lord Overston's *Tracts;* Newmarch, Essay in *Statistical Journal*, June and Sept., 1855; Well's *Revenue and Expenditure of the United Kingdom;* Francis, *History of the Bank of England;* Dudley Baxter, *National Debt;* Lubbock, *Essays;* Northcote; Dowell; Tooke; Porter; Levi, *History of Commerce;* McCulloch, *Treatise on Taxation* and *Taxation and the Funding System;* De Fonblanque, *How We are Governed;* Taylor, *History of Taxation;* Cunningham, *History of British Industry;* A. J. Wilson, *The National Budget*; together with the *P. I. and E.* ii.—a mine of wealth on the subject; and the important Debt Return of 1858 (*P. P.*, 443 of 1858), now, unfortunately, out of print, &c., &c.

‡ The money borrowed was usually advanced in anticipation of, and on the security of, uncollected taxation. Twice, at least—not to go back to the dark ages—more violent measures were adopted. Charles I., in 1640, appropriated £200,000 of bullion that had been deposited in the Mint by merchants; but restored it again in consequence of the outcry that was raised. Charles II., in 1672, closed the Exchequer (at this time an office for the receipt, custody, and issue and audit of the public money), impounding—an euphemism for appropriating—the money belonging to the goldsmiths, the bankers of the period, which had been deposited there on loan to the Crown. After a time the king acknowledged his indebtedness, and paid interest on the "loan" until a year before his death. Interest then ceased, and the debt was not legally recognised until after the Revolution, when the original sum of £1,328,000 was arbitrarily reduced by one half, to £664,263, though the total debt now amounted, with accumulation of unpaid interest, to nearly three millions and a half. Indeed, putting aside the "original sin," Charles the Second was more honest in the matter than the Constitutional Parliament. See Sir S. Northcote's interesting and amusing lecture on the "Closing of the Exchequer" in his republished *Lectures and Essays;* Macaulay, i. chap. ii. 169, 226; Wells, p. 364; Cunningham, 341, &c.

‖ By 1816 the debt due to the Bank—in consequence of loans to successive

In 1691,* there was outstanding £3,130,000 borrowed in anticipation of loans, and by 1693 the Navy—always impecunious†—had run up debts to an amount of £1,430,000. But these were incidental items, and it was not until 1694 that a definite amount of debt was, as it were, "funded," and because a permanent annual charge—indeed, funding may be said to have come in with William of Orange.‡ The second "funded" loan issued was an advance, in 1698, by the East India Company of two millions, at eight per cent.; and by this time the unfunded debt had risen to 12½ millions. During the next few years the debt was annually diminished, until the year 1706, when some "six per cent. annuities" were issued.‖ The first "South Sea Stock" was issued in 1712, by which time the debt had risen to 35 millions.** By 1720 the debt had risen to 54 millions, involving an annual charge of £2,850,000 a year. Under Walpole, between 1720 and 1740, both the interest on the debt and the capital itself were reduced.

Governments—had risen to £14,690,000, at which it remained until 1834, when it was reduced by repayment to eleven millions; at which amount it now stands. See *II. 14.*

* These early figures of debt are taken from the Public Debt Return, *P. P.* 443 of 1858.

† Pepys, in 1667, speaks with much indignation of the sailors who, "instead of being at work at Deptford, where they were intended, do come to the office this morning to demand the payment of their tickets; for otherwise they would, they said, do no more work; and are, as I understand from everybody that has to do with them, the most debauched, damning, swearing rogues that ever were in the Navy, just like their prophane commander." *Diary of Sam. Pepys*, iv. 377.

‡ "What really dates from his reign is not the system of borrowing but the system of funding. From the period of immemorial antiquity it had been the practice of every English Government to contract debts. What the Revolution introduced was the practice of honestly paying them." Macaulay (i. chap. iii. pp. 226, 289.) "'The glorious revolution'; memorable epoch, that presented England at the same time with a Corn Law and a public debt." Disraeli, in *Sybil*, p. 21.

It was probable that if it had not been for the power of mortgaging future resources, and throwing part of the burden on future generations by means of loans, that the new dynasty would have been unsuccessful in the war with France, and the Stuarts possibly reinstated on England. See *infra, 208, n.* Compare *Calendar of Treasury Papers*, vol. ii., pp. 28, 35, &c., for the state of impecuniosity of the Treasury in the time of William III.

‖ To an amount of £664,000. The debt, funded and unfunded, then amounted to 12¼ millions.

** The South Sea Company in consideration of the privileges conferred upon it in 1710 and 1711, took up some outstanding debts of the Government, to an amount of £9,200,000, on which the company received from the Government six per cent. interest, reduced to five per cent. in 1716. In 1720, the Government desiring to consolidate the greater part of the debt, the South Sea Company and the Bank of England bid violently the one against the other to obtain the concession, the South Sea Company ultimately being victorious; the extravagant terms offered by the company doing much to encourage the speculation in the shares which led to the "bubble." See *I. 128.*

In 1732, the year before he destroyed his sinking fund, the debt stood at 51 millions. In 1740, it amounted, all told, to 47 millions, involving an annual charge of £2,050,000 a year. Then came the war of the Austrian Succession, and in the next ten years, the debt rose to 77 millions. Further costly wars followed, and the debt made rapid strides, amounting, by the time of Pitt's accession in 1783, to 243 millions of stock,* under nine different denominations, in addition to the unfunded debt, together with about £1,400,000 of annuities, or in all a capital value of 273 millions; † the annual charge for interest amounting to 9½ millions. Slightly reduced in the next ten years of peace, the debt, on the breaking out of the Great War, at once made enormous strides; and Pitt's plan of raising the major part of his loans in three per cent. stock, issued at an enormous discount, instead of in 4 or 5 per cent. stock, tended still more rapidly to augment the capital of the debt.‡ The debt rose to

* Very nearly the whole of our debt is due to war expenditure. The total cost of the different wars of the eighteenth century, before that with revolutionary France, as calculated by Mr. Chisholm, is as follows:—The "War of the Spanish Succession" (1702–18), 50½ millions; the Spanish War of 1718–21, 4½ millions; "Jenkins' Ear" and the war of the Austrian Succession (1739–48), 43 millions; the "Seven Years' War" (1756–63), 82½ millions; the American War and its resultant complications (1776–1785), 97 millions. The total cost of the Great War, he puts at 831 millions. (*P. I. and E.*, ii. p. 708.)

† Previously to 1854, the value of the "long" and other terminable annuities were not capitalized and included in the total debt—in that year they were computed at 26¾ millions—and, hence, the real liabilities of the nation were in former days considerably larger than appears from the actual returns of debt. The annuities in 1784 amounted to £1,366,000 a year, or say (as calculated by Dudley Baxter, p. 9), equal to a capital debt of 30 millions.

‡ The three per cent. loan of 1793 was issued at 72; that in 1798 at under 50; that of 1804 at 54¾; that of 1806 at 60¼; that of 1813 at 57. The five per cent. "loyalty" loan of 1797 was issued at 89¼, and the five per cent. loan of 1812 at 92½. The four per cent. loan of 1808 was issued at 84¾ (see *P. I. and E.* ii. 544–5).

It is an interesting and important question whether Pitt (and his successors) were right or wrong in thus raising the bulk of these loans in three per cent. stock, and whether they had any real option in the matter. Mr. Newmarch in his exhaustive analysis of Pitt's loans (*Statistical Society Journal*, June and September, 1855), contends, in the first place, that Pitt could not have found a market for any large amount of four or five per cent. stock, and thus was forced to issue his loans at three per cent.; and, secondly, that taking into account the price at which five and four per cent. stocks, which were less popular, could have been issued, on the whole, at least up to 1826, the nation did not lose but actually gained by the three per cent. stock issued while Pitt was still Chancellor of the Exchequer. That Pitt himself appreciated the advantages of issuing stock of a higher denomination is pretty clear from the doctrine he laid down in his Budget Speech of 1784. "It was always my idea," said he, "that a fund at a high rate of interest is better to the country than those at low rates; that a four per cent. is preferable to a three per cent., and a five per cent. better than a four. The reason is that in all operations of finance we

over £400,000,000 in five years, and to just on £500,000,000 by the end of the century, to £600,000,000 by 1805, and to £700,000,000 by 1812, and between then and the end of the war, another £160,000,000 were added. The total debt in 1815 was £861,000,000, together with £1,900,000 of annuities, bringing the total liabilities up to £900,000,000.* The annual charge for the debt, irrespective of the sinking fund, had risen to thirty-two millions and a half.

Between 1815 and 1856 the debt was increased by about sixty-five millions, on account of the Slave Compensation loan of twenty millions in 1835 and 1836, the Irish Famine and West Indian loans of some eleven millions in 1847 and 1848, and the Crimean War, which added thirty-five millions to the debt. But, meanwhile, by means of terminable annuities and realized surpluses much of it had been redeemed, and in 1856 the debt stood at £832,000,000—funded, £780,000,000, unfunded, £28,000,000, terminable annuities (capitalised) £24,000,000.†

should always have in view a plan of redemption. Gradually to redeem and to extinguish our debt ought ever to be the wise pursuit of Government, and every scheme and operation of finance should be directed to that end, and managed with that view." (*H.*, June 30th, 1784.) And it is very likely that, ten years later he found it impossible to practise that which he had preached. I doubt, however, if Mr. Newmarch quite proves his second point, that no loss, but positive gain accrued from the issue of three per cent. instead of four or five per cent. stock. He forgets, I think, the fact that the interest on the debt, if issued at a high rate, could, and would, long ago have been reduced (see *I. 126*), while, for nearly a hundred years, it was not found possible to reduce the interest on Pitt's three per cent. stock. According to the calculation made by Mr. Chisholm (*P. I. and E.*, ii. pp. 551–54), between 1793 and 1816, some £911,000,000 of capital stock was created, for which but £590,000,000 sterling was received. Of the debt thus created, 724 millions was issued at three per cent., 50 millions at four per cent., and 137 millions at five per cent. A considerable amount of this stock was from time to time redeemed at low prices by means of the sinking fund, but the vast bulk of it remained unredeemed by the end of the war, and has been since, or will be, redeemed at or somewhat below par. This debt, it is one consolation to think, unlike that of most other nations, has been and is held in England by Englishmen, and therefore the redemption at a higher rate, though in many ways very disadvantageous, has been to a certain extent but a transference from one pocket to another, and has not gone out of the country.

Pitt's plan was followed in 1847 and in 1856, and three per cent. stock was issued at a discount—in the first case at 89½, in the second at about 90 and 93. The sixteen million loan of 1855 was issued at par, together with an annuity for thirty years of 14*s.* 6*d.* per £100. Neither in 1847, nor at the time of the Crimean War, with the rest of the debt in a three per cent. stock, would there have been any possibility of issuing a stock at a different rate of interest. (Debt Return 443 of 1858. See Gladstone, *H.*, April 8, 1853.)

* Funded debt £816,000,000, unfunded £45,000,000, the terminable annuities in 1815 representing (according to Mr. Baxter) a capitalized value of £41,000,000, bringing the total debt up to £902,000,000. Cf. Gladstone, *H.*, May 3, 1866.

† Unfortunately as the value of the terminable annuities in the years previous to

Since the Crimean War, there has been a steady, and, with but few exceptions, an annual redemption of debt.* In March, 1886, the total outstanding national debt was calculated at 743 millions; † but of this total some forty-seven millions were good assets, which may be taken in reduction of the total liabilities,‡ leaving the nation as a whole with an outstanding indebtedness of some seven hundred millions sterling.‖

1854 have not been as yet officially calculated, I think it better not to attempt to give an estimate in the text of the amount of debt outstanding at various periods between 1815 and 1856. But the figures are these: In 1822 the funded and unfunded debt amounted to £835,000,000, with annuities equal to those in existence in 1815, namely, £1,900,000. By 1834 the funded and unfunded debt had been reduced to £773,000,000, but the annuities had risen to four millions a year: by 1846 the debt stood at £783,000,000, with £3,930,000 of annuities; by 1853 it stood at £775,000,000, substantially the figure of twenty years before (funded, £752,000,000; unfunded, £23,000,000), together with annuities of £3,890,000 a year. There has been more than one change made in the official basis of calculation of the value of the terminable annuities since the system was first introduced, but the change does not make any very substantial difference in the grand totals of the debt.

* In this respect England stands well in regard to other nations. Since 1816 she has largely diminished her debt, while every other nation (except Holland) has increased hers. England, indeed, as Mr. Gladstone once said, "has sown her wild oats long ago." Mr. Dudley Baxter (in his *National Debts*, published 1871) shows that after the French war the debt of Great Britain "towered like a giant over the debts of all other nations," amounting to £900,000,000, against £570,000,000 for the whole of the rest of the Continent, the French debt amounting to but £140,000,000. By 1870, while England had reduced her debt by some 100 millions, to £800,000,000, every other nation (except Holland) had greatly increased hers, the French debt now standing at 550 millions, and the indebtedness of the Continent of Europe having grown to £2,165,000,000, and that of the United States to £530,000,000.

If the comparison be carried still later, we find that England and the United States alone have, since 1870, continued to reduce their debts, while those of the other great nations have continued to increase; until, at last, England has been surpassed by France in total indebtedness, she now owing over a thousand millions against the 740 millions of England. (See Mulhall, *Progress of the World.*) These comparisons are at the best very rough, for they take into account the nominal capital of the debt alone, and not the debt charge. And if the question of the interest be considered, the burden in proportion to the amount of debt is least in England and in the United States.

† See Debt Tables, *Appendix D.*

‡ The good assets (in 1885) were the loans to solvent local bodies (£31,000,000), the capital expended on the telegraphs (hardly, however, a very good investment), £11,000,000; the Suez Canal shares (taken at £4,000,000, the purchase price, but now worth £10,500,000); the Sardinian War loan (£950,000 outstanding); the Cape loan (£600,000): in all about forty-seven millions. (See *P. P.* 227 of 1886, and *Finance Accounts.*) The amount of the Balances have been already taken into account in the total.

‖ The names by which are known the different existing "perpetual annuity" stocks are derived from the different operations that have taken place in connection with them. The "Three per cent. Consolidated Annuities"—the so-called "Consols," date from 1748–51, when nine different denominations of funded debt, charged on distinct funds, were consolidated into one stock. The total amount of "Consols" was then but nine millions, in March, 1886, it amounted to 330 millions. The "Three per cent. reduced Annuities"—the "reduced counsels" of Mr. Weller, Senior—were formed about the same time, and were so called from the reduction which took in the interest upon the stocks thus rolled into one. The total stock then amounted to

Of late years the feeling in favour of a more rapid and determined diminution of the national debt has been growing, in a manner which, if not sufficient, is so far satisfactory. Men are beginning to realise that this is no question of an obligation to posterity, which can be put aside with the old retort of "What has posterity done for us?" but that the outstanding national liability of some seven hundred millions constitutes a serious burden in time of peace, a serious danger in time of war.* The question as affecting England's commercial supremacy is moreover a great one. The time may now be not far distant when America, in the future our most dangerous commercial rival, will have cast off the trammels of a protective system, and when, entering into competition with us in the markets of the world, she will work havoc with our trade. And the full seriousness of this matter is not sufficiently appreciated by the nation at large, nor is the fact that while our burden is far greater, our efforts to free ourselves are far less than those of America.

The example of our forefathers of sixty or seventy years ago may well put us to shame. When the population was but two-thirds of what it now is, when the wealth of the country and the trade of the country were infinitely less than now, the nation cheerfully bore a debt charge, which, including

17¾ millions, in 1886 it stood at 77 millions. The "New three per cent." stock was that on which the interest was reduced by Goulburn in 1844, from 3½ to 3¼, and which further fell to 3 per cent. in 1854. The amount of this stock in 1886 was 180 millions. This stock was, after 1870, subject to redemption at any time, and it is this stock on which Mr. Goschen has just compulsorily operated. In addition to these stocks there were in 1886 outstanding 33¼ millions of 2½ per cent. stock, £4,650,000 of 2¾ per cent. stock, and £225,750 of 3½ per cent. stock. There were, moreover, the debt due to the Bank of England, £11,015,000, and that due to the Bank of Ireland, £2,630,000. These, together with the capitalised value of the terminable annuities, form the funded debt. The unfunded debt consisted in the same year of Treasury Bills, running for three or six months, to an amount of £8,680,000, of Exchequer Bills to an amount of £5,162,000, and Exchequer Bonds, to an amount of £3,760,000. This £17,600,000 was divided among bonds and bills, issued "for supply," that is, in anticipation of taxes and to meet deficiences, to an amount of £7,440,000; for local loans, £6,400,000; for Suez Canal shares, £3,360,000; for Cape Railway loan, £400,000.

* The warlike power of every country depends on its credit, wrote Sydney Smith. "If Cæsar were to reappear upon earth, Wettenhall's (Stock Exchange) list would be more important than his Commentaries; Rothschild would open and shut the temple of Janus; Thomas Baring would command the tenth legion and the soldiers would march to battle with loud cries of 'Scrip and Omnium, Consols and Cæsar.'" *Letters on American Debt* in *Works*, iii. 472. Compare with this a somewhat similar passage in Macaulay, in which the opposite argument is used, namely that lack of credit does not stand in the way of aggressive war. *Essays*, "Pitt," p. 394.

redemption, was not less than from thirty to thirty-five millions a year; a charge which it was as difficult for them to bear as one of a hundred millions would be for us;* and yet we, in these days, seem prepared to satisfy our consciences by providing for a fixed charge of no more than six and twenty millions a year. True, the proportion that redemption bears to interest, in our case, is considerably greater than in theirs; but the point to consider is the charge as a whole, not its proportionate parts.

And our still enormous debt we are now redeeming by intent at the rate of less than five millions a year,† though, with luck, it may, with one year and another, be further reduced by a million or perhaps two from chance surpluses. But wars occur, deficiencies arise, debts are created, and sinking funds are reduced. It is so easy to

"Lose to-morrow the ground won to-day,"

that surely, as Sir John Lubbock has eloquently pointed out, we ought not "to trifle with this duty . . to be satisfied with paltry amounts and accidental surpluses, but at once to make such an effort as may be necessary to effect our object, and to do so on a scale worthy of a great, a wealthy, and a prudent people." ‡

From this point of view, the creation of the "New Sinking Fund" in 1875 marked an important proceeding in the finance of the last thirty years. By 1866, as already shown, ‖ increased specific application of revenue to the annual reduction of debt had

* As calculated from Mr. Dudley Baxter's figures, p. 20. Compare Giffen, *Gladstone's Work on Finance*, p. 231-2.

† The "permanent" or fixed National Debt charge (as reduced in 1887) is now fixed at £26,000,000, made up as follows:—Interest on £610,000,000 of funded debt (after deduction of £27,700,000 "local loan stock" under the proposal of 1887) £18,111,000; interest on unfunded debt of £13,840,000, £423,000; terminable annuities £6,560,000, of which about £4,000,000 now represents capital repayment, an amount that will increase each year. Management costs £204,000, and the balance of the fixed charge, about £700,000, constitutes the new sinking fund. Outside the fixed charge there is an annual outlay of £200,000 a year for the Suez Canal Exchequer Bonds (of which £86,000 represents capital repayment), and of £14,000 a year for some Cape Railway Exchequer Bonds. The total portion of the debt charge of £26,214,000 for 1887 representing capital repayment was thus estimated at £4,830,000. See *P. P.* 168 of 1887.

‡ *Political Addresses*, "The National Debt," a speech delivered in the House of Commons in 1871. Sir John Lubbock was one of the earliest and most strenuous of those prophets who have preached to the nation the doctrine of rapidly redeeming the debt.

‖ *Chap. XX.*

become a duty which could no longer be ignored; and, in that year and the next, the debt charge was raised by about half a million a year, bringing it up to £26,600,000. Between 1867 and 1874, but little more had been done in this essential particular, and the debt charge for 1873 was still but £26,700,000. In 1874 the charge was nominally increased by half a million. Nominally, because, as we have seen,* the addition to the debt charge constituted a deduction from the amount previously applied in a different form to the reduction of the debt—it was but a payment in meal instead of in malt.

Substantially, therefore, the estimated debt charge for 1875—£27,200,000—was but £200,000 more than the actual debt charge for 1867,† and much of this was due to the increasing outlay on account of the annual fortification borrowings. Yet between 1866 and 1875, nearly fourteen millions of taxation had been remitted, and the country had been rapidly increasing in wealth. Clearly the time was again over ripe for making another sustained effort to reduce the debt more rapidly, instead of depending for that object merely on chance surpluses. And more especially was it now necessary, inasmuch as the chance surpluses which under the old system of estimate, had annually reduced a considerable amount of debt, would, under the system of close estimates, initiated in 1874, become both fewer and smaller.‡ On this ground alone, if on no other, the institution of some permanent system of further annual payment towards the reduction of the debt was essential.

The first regular sinking fund was established in 1716, at a time when the National Debt aggregated only some forty millions; but when, a national debt being somewhat of a new institution, its magnitude was a cause of genuine alarm to the statesmen of the time.‖ The idea of the sinking fund was that of Walpole, the actual initiation was due to Lord Stanhope, his successor.

* See *II. 180.*

† 1867 debt charge £26,570,000, estimated for 1875 £27,200,000, difference £630,000, less £450,000 for local loan interest annuities : net increase £180,000.

‡ See *II. 178.*

‖ Bolingbroke, when the whole debt was but thirty millions, spoke of it as a "sum that will appear incredible to future generations, and is so almost to the present" (Mahon, i. 27). After the Great War the annual interest alone was greater than this "incredible sum!"

The plan of the Walpole-Stanhope sinking fund was to apply the annual surpluses of the "Aggregate Fund," the "South Sea Fund," and the "General Fund," to the redemption of debt, and (in which respect it resembled the plan of 1875) to add to the fund so constituted, any saving in the payment of the annual interest brought about either through redemption of debt or by a reduction in the rate. On the whole this sinking fund, while left intact, was successful in redeeming debt, though at first especially, while war continued, money was often borrowed at the same time that debt was being paid off.*

From 1727 onwards, gradual encroachments were made on the sinking fund, by the alienation of taxes, and by charging the interest of new loans on the surplus appropriated to the payment of debt. In 1733, Walpole, in order to avoid doubling the shilling to which the land tax had been lowered, took half a million from the sinking fund—then amounting to about a million and a quarter—in order to meet current liabilities. *Facilis descensus Averni est.* In 1734, the whole produce of the fund was appropriated, and, in the next two years, it was anticipated and mortgaged; and the sinking fund, "finally perverted from its original use, instead of being employed in the liquidation of the National Debt, became a fund for the current service of the year."† Thus, as Dr. Price put it, "that sacred blessing was prematurely and cruelly destroyed by its own parent."

* Between 1816 and 1821 war still prevailed. Again, in 1820, the capital of the debt was nominally increased by the funding of the annuities. The usual dispute raged round the question of whether the debt was really being reduced or no by means of the sinking fund. One side looked only at the surplus on the sinking fund, and the redemption of debt thereby rendered possible, ignoring the new debt that was created. The other, more sensibly, took the debt as a whole, and endeavoured to show that it was annually increasing in amount in spite of the sinking fund. See *An Essay on Publick Debts* (1726), and the counterblast, *Remarks on the Essay, in which the* EVIL TENDENCY *of the Book and the* DESIGN *of its Author are Fully Detected and Exposed* (1727).

† Coxe, i. 367-8 (ed. 1798). The Archdeacon speaks of this "robbing of posterity" as "the greatest blot on the administration of Sir Robert Walpole." Walpole had said, in 1716, that the sinking fund had "two fathers"—Stanhope and himself—and that it was none the worse for that. Pulteney, in 1733, reminded the House that Walpole "had once the vanity to call himself the father of the sinking fund. But if Solomon's judgment was right, he who is thus for splitting and dividing the child can never be deemed to be the real father." (*H.*, Feb. 23, 1733.)

It was, with some show of reason, argued at the time that it was inexpedient to pay off the debt too rapidly. If the Pretender came back, he would come back, as Addison said, with a sword in one hand and a sponge in the other, and the existence of a National Debt, which would be repudiated if the Hanoverian dynasty disappeared, bound over the stockholders to the support of the Whig Government.

In the next fifty years the debt, as we have seen, rose rapidly, and by 1786 it amounted to about £245,000,000. In that year Pitt instituted his automatic sinking fund, and boasted and believed, as all authors of sinking funds boast and believe, that he had discovered a financial secret which would make him immortal.* The original proposal was simple enough. It was to set aside for the payment of debt a million of surplus revenue a year, to be applied to the purchase of stock. This stock, however, was not to be cancelled, but to be held by commissioners, who were to receive the interest and to re-invest it in fresh stock until they had purchased the whole of the funded debt outstanding, when it was to be cancelled. Originally, however, it was not intended that the annual sinking fund should be allowed to exceed four millions, to which amount the fund would gradually grow by the accumulation of interest on the stock purchased. Any excess beyond that sum was to be at the disposal of Parliament.

The sinking fund was founded on the very substantial basis of a million of surplus; and Pitt, who had in hand an estimated surplus of about £900,000, did not hesitate to impose additional taxation to an amount of £100,000. So far so good. The fallacy underlying the scheme was that propounded by Dr. Price,† who had apparently proved that it was possible to maintain an effective sinking fund with the one hand, while borrowing with the other; that money could be borrowed at simple interest, while the sinking fund, created for its repayment, would increase at compound interest.‡ This pleasing delusion held possession of the public mind for forty years, and ultimately resulted in the pay-

* Huskisson, in 1813 (*H.*, March 25), spoke of Pitt's sinking fund as "perhaps the proudest monument which was raised by the virtues and genius of Mr. Pitt to his own fair name," and one that should be preserved "unmutilated and entire in all the beauty of design, in all the strength and symmetry of proportion assigned to it by the hands of its immortal author."

† See his *Appeal to the Public on the subject of the National Debt*, new ed. 1774; re-printed by Lord Overstone in his invaluable *Select Collection of Tracts* (private circulation).

‡ Dr. Price argued that a nation by appropriating £400,000 per ann. for seventy years to the purposes of a compound sinking fund, could, all the while, "run into debt two millions annually," and yet, "at the end of the term, leave them beforehand six millions." Again, the nation could "borrow half a million annually for the purpose of redeeming the debts of the kingdom," and by applying it for fifty-six years, "without interruption to the redemption of debts bearing 4 per cent. interest," it would be seventy-two millions to the good. (Price, pp. 317 and 323 of *Tracts*.)

ment year by year to the sinking fund of the enormous sum of fourteen to fifteen millions, every penny of which was borrowed for the purpose. It was forgotten that the State can never, at any rate for any length of time, borrow at the same price at which it can purchase its own stock, and that the interest on the loans created in order to pay off debt, unless met by increased taxation, would itself increase at compound interest: in a word, that increased debt can only be paid off by increased taxation.* So long as the annual expenditure, plus the sinking fund, did not exceed the annual revenue, the fund was a reality; as soon as the two together exceeded the revenue, the sinking fund degenerated into a costly and circuitous method of borrowing. If the sinking fund had been applied annually and directly to the cancellation of stock, the operation would have been continually and clearly before the eyes of the nation and of its financiers; while at least such stock as was cancelled, when there happened to be a surplus, would have represented real reduction of debt. But the purchase and retention, instead of the cancellation, of stock partially disguised the absurdity of borrowing money for the purpose of paying it off. The maintenance of the sinking fund at a large and increasing amount, deluded the nation into the idea that they were annually doing something great and effective towards the reduction of their debt; while, as a matter of fact, during the whole period of the war, they were rapidly increasing it.

How far Pitt himself was actually deluded by the arithmetical sophistries of Dr. Price it is difficult to say. His very first action in regard to the sinking fund (the imposition of taxation in order to create the necessary surplus) showed that he appreciated the financial truth that an excess of revenue above expenditure was the only real sinking fund.† His scheme was initiated

* Dr. Hamilton clearly pointed out in his Essay, that nothing is gained by the borrowing of money at simple to improve it at compound interest. The interest on the loan must be met by increased revenue (or diminished expenditure), or by loan. If by the former, then the money could be applied equally to the reduction of debt without any elaborate system of sinking fund. If by the latter, the nation is borrowing at compound interest also (in addition to the cost of the operation), and the debt is accumulating, as well as being paid off at compound interest. (*Inquiry into the National Debt*, 3rd ed. 1814, Part III.)

† See Pitt's introductory speech of March 29th, 1786, as well as that of February 17th, 1792; republished in the volumes of his *Speeches*.

at a time of profound peace, and of elastic revenue, when everything pointed to a period of surpluses, and of practicable reduction of debt; and until great stress of expenditure made away with the surplus the system worked well; while the plan of applying the interest saved on the stock purchased to the increase of the sinking fund was perfectly legitimate and feasible. Even when war broke out and expenditure increased, Pitt, at first convinced that the conflict would be of short duration, may not unnaturally have preferred to maintain the sinking fund for a few years, even though on a false basis, rather than break it up, in the hope that a speedy peace would soon restore its efficacy.

By an Act passed previously to the war, it had been enacted that a special sinking fund should be created for the repayment, in not more than forty-five years, of any new loan issued, and charged on the general sinking fund which was to be correspondingly enlarged; so that, as Huskisson expressed it, from the moment of the fresh debt being incurred it should be placed in a course of liquidation.* It was difficult enough to raise money on any terms, and without this promise of liquidation within a limited time, it would have been perhaps impossible to have raised the successive war loans. From the very beginning of the war, therefore, the credit of the country and the power of issuing loans, became apparently bound up with the existence of the sinking fund; and, as the war continued, the difficulties of abolishing the sinking fund were increased. To have suspended the fund would have been considered by many as an act of bankruptcy, as a sign of weakness which England, in the midst of her great struggle, could not afford to give.† All these reasons may well

* *Speeches*, i. 137. See Pitt's Speech of February 17th, 1792.

† Pitt's biographer, Tomline, states that his "inviolable adherence to the application of that sum (the "surplus of a million"), with its accruing additions . . probably saved this country from becoming a province of France." (*Memoirs*, ii. 144.)

This feeling, even as late as 1822, and in time of peace, still actuated so enlightened a financier as Huskisson, who, in speaking of the sinking fund, said that it was one question whether such a sinking fund, if it were now proposed, should be instituted, but it was quite another thing "whether without the most overruliug necessity we ought to give up the sinking fund which we already possess." To do so would be "to exhibit to the world such a proof of distress and inability, of weakness and vacillation in counci), as must lower our station, and destroy our influence in Europe; and as could not fail ere long, by inviting aggression, to bring upon us, in increased expense and diminished security, the punishment, even in a pecuniary view, of our own shortsighted and miserable policy." And he goes on to say, "but one great

have induced Pitt, even if fully cognisant of the fallacy of the system on which the sinking fund rested during a time of annual deficiencies, to prefer to maintain it by borrowing rather than to abandon it. Lastly, it is possible—such is the power of self-deception—that through the constant reiteration of his supporters and himself, Pitt had gradually got to believe that there really was some magic in the process, and that he was exorcising the debt while feeding the sinking fund with loans.

There is this at least to be said in favour of the sinking fund, that though it involved a very costly annual operation, as we shall presently see, its existence, by necessitating increased taxation to meet the sinking fund, as well as the interest on each fresh loan, induced and enabled Pitt and his successors to impose, and to maintain, taxation at a figure higher than would otherwise have been possible; and thus, in the end, to meet a greater portion of the war expenditure than would otherwise have been the case.*

However, whatever other reasons there may have been for maintaining and extending the system, from the point of view of debt reduction, the sinking fund, from the time of the outbreak of war until its final extinction in 1828, was merely one prolonged imposture. There was not one single year in which money was not borrowed to feed it, very few in which a vastly greater amount than the whole sinking fund had not to be borrowed, scarcely any in which it had an appreciable effect on the reduction of debt. Between the time of its institution in 1786 and 1792, the last year of peace, the annual million originally voted had grown, by additional issues from the Exchequer, and by the accumulated interest on stock purchased (£372,000) to a sum of £1,630,000, applicable to the annual redemption of debt.† Then came the war in 1793, and the sinking fund—though not the revenue of the country—was rapidly augmented for the purpose of redeeming each loan as it was issued. By 1800, the total sinking fund

authority, hitherto most friendly to a sinking fund (Mr. Tierney), has told us, that we may part with it now and restore it again some years hence, when the country shall be more prosperous. This appears a weak and dangerous course. If once given up, the sinking fund will be gone for ever." (*H.*, February 15th, 1822, Speech ii. 98.)

* See Hamilton, p. 160.

† By this date 9¾ millions of money had been applied to the purchase of 12½ millions of stock, which were held by the Commissioners.

applicable to the purchase of stock had risen to five millions a year; and by that date the amount of stock purchased aggregated 52¾ millions, with accruing interest of over 1½ millions. Then came the time of greatest strain, and by 1813 the sinking fund had risen to sixteen millions a year—Exchequer issues and other receipts accounting for £1,600,000, the sinking funds on the loans issued since 1793 for about £7,000,000, and the dividends on the stock redeemed representing another 7¼ millions. The debt "redeemed" and held by the Commissioners then amounted to £254,000,000. The height of folly could no further go, and in 1813 and 1814 some £200,000,000 of the debt "redeemed" was cancelled;* and the interest thereon ceased; thus lightening both the receipts and expenditure of the sinking fund by about six millions a year.

More than one change had meanwhile been made in the sinking fund, usually with the object of increasing it, though, in 1807, a legislative check was placed on its accumulations for fear of "deluging the country with a flood of wealth by a too prompt discharge of the public debt."† By 1815 the total outstanding funded and unfunded debt had risen to 860 millions. By 1819 (in spite of the saving of interest on the cancelled stock in 1813 and subsequent years) increased loans and their sinking funds had again raised the total fund to 15¼ millions a year, and yet the actual surplus of revenue over expenditure—exclusive of the sinking fund—was but two millions. The power of Pitt's great name, and the feebleness of successive financiers, had so far kept the sinking fund intact, and in 1819 it was actually still further increased. By resolution, the House declared that it was "absolutely necessary" that each year there should be, for the purposes of the sinking fund, a clear surplus of income over

* The amount thus cancelled was £238,000,000, so that—according to the resolution of the House—a sum "equal to the whole capital and charge of the public debt existing on January, 1786, hath been *satisfied and cancelled*." (*H.*, March 3, 1813.) At the very same moment the public debt still outstanding amounted to between 600 and 700 millions.

† McCulloch, *Treatise on Taxation*, p. 482. In 1802 the Chancellor of the Exchequer (Addington) estimated that, if peace were maintained, the whole debt would be paid off in 42 years and 2 months. In 1887, the Chancellor of the Exchequer (Mr. Goschen), after reducing the sinking fund by two millions, declared that the debt would be extinguished in 56 years if the then "charge were steadily persevered with."

expenditure of not less than five millions sterling.* But instead of simply reducing the sinking fund to this amount, the old plan of an enormous fund, fed by loans, was still maintained.† An effort was however made, by the imposition of three millions of additional taxation, to obtain the required five millions of surplus. Needless to say, the surplus was not forthcoming; indeed the revenue refused to respond to additional taxation. This was the final effort. The old system of sinking fund was now falling into disrepute, and disappeared with Vansittart.‡

In 1823—at which time the debt stood at about £870,000,000 ‖ —Huskisson and Robinson inaugurated their financial and fiscal reforms by the reduction of the sinking fund from sixteen to five millions a year, "the sum appropriated for this purpose being limited to the amount really intended to be applied to the discharge of debt." The system of accumulation of interest and of redemption without cancellation was, however, still maintained. There was, exclusive of the sinking fund, an estimated surplus in the year of just over seven millions; and thus, while five millions could be appropriated to the purposes of the debt, two millions were available for the purpose of remission and fiscal reform.**

In spite of these good intentions, the requisite surplus was again not forthcoming; and, in the next six years, instead of the aggregate surpluses amounting, as they should have amounted, to 25 millions, they came to not half this sum—the rest being, as usual, borrowed. In 1828 the celebrated Finance Committee on public income and expenditure was appointed; and (under the chairmanship of Sir H. Parnell) they laid down the financial axiom that funds for the extinction of debt should not be raised "by the creation of it in another shape;" and added that "they

* *H.*, June 3, 1819. See also June 7 and June 9 (Budget).

† In this very year, 1819, a "sinking fund loan" of twelve millions was raised, and the following year another similar loan to the same amount was issued. (See *P. I. and E.* II. 44, 46.

‡ The change of opinion was largely due to Dr. Hamilton's exposure of the costly system of the sinking fund in 1813.

‖ That is taking the terminable annuities as worth about £35,000,000.

** See *H.* Feb. 21, 1823, and March 13. The old financial confusion of ideas had not even yet quite disappeared, for the Chancellor of the Exchequer explained that if by chance the revenue fell off, he could not impose taxation, but he would then "make the surplus up by issue of Exchequer Bills, or some other temporary expedient."

could not under any circumstances recommend a sinking fund not provided by a real surplus."* In the same year Mr. Goulburn, the Chancellor of the Exchequer, in introducing his Budget, stated that instead of the five millions of surplus requisite under the arrangement of 1823, he had one of but three millions; and he declined to meet the difference by taxation, on the express ground that the same course had been followed many times before.† In the following year it was finally recognised that "no other sums should be applied to the reduction of the National Debt than those which were clearly and *bonâ fide* surplus revenue after paying all the charges of the country."‡ And it was enacted, that the fixed sinking fund should be abolished; that, in lieu of it, any surplus, as it was realized, should be applied quarterly to the redemption of debt, and that money should on no account be borrowed to feed the fund.||

Having, in 1829, a considerable surplus on hand, after the abolition of the sinking fund, Goulburn, acting on the recommendation of the Finance Committee, proposed that then and in future it should be the duty of the Chancellor of the Exchequer to keep in hand a surplus of not less than three millions a-year, which, as realized, should be applied to the reduction of the debt. It would in those days doubtless have been wiser to have specifically applied these three millions to well-considered reform of the tariff instead of to the mere reduction of liabilities, especially as the three millions soon disappeared in indiscriminate remissions. For, in the first year only was the full sum kept in hand by the Chancellor of the Exchequer, and the three millions soon dwindled to as many hundred thousands. Nevertheless, the system of sinking fund—the so-called "Old Sinking Fund"—introduced in 1829, has worked most satisfactorily. It is the most direct, the most economical of all sinking funds; it only comes into play when there is a realized surplus, and the money as received is applied directly to the cancellation of stock or of unfunded debt.

* Fourth Report, pp. 17–25; *P. P.* 519 of 1828. Lord Grenville's *Essay on the supposed advantages of a Sinking Fund*, pub. in 1828, helped also to educate public opinion on the subject by exposing the fallacy on which the Sinking Fund rested, and in which, at one time, Grenville himself had firmly believed.

† *H.*, July 11, 1828.

‡ Goulburn. *H.*, May 8, 1829.

|| 9 Geo. IV. c. 90, and 10 Geo. IV. c. 27.

The net results of Pitt's Sinking Fund are certainly startling. Between its creation in 1786 and its extinction in 1829, £483,000,000 of Stock was "redeemed" under its provisions, or just double the amount of debt outstanding—£240,000,000—at the time of its institution. But while, by means of the sinking fund, this huge mass of funded debt had been redeemed, it had been necessary at the same time to create no less than £1,000,000,000 of funded debt* in addition to some £50,000,000 of Unfunded, and the nominal capital of the Debt at the end of the period amounted to about £860,000,000 † instead of to only £240,000,000. Thus, an amount of debt equivalent to the stock redeemed, and a great deal more besides, had had to be created for no other purpose than to provide the wherewithal to feed the omnivorous sinking fund. As Mr. Grenfell said in 1819, "the nation had been creating a new debt for no other purpose than to destroy an old one, selling new stock cheap in order to buy old stock dear; buying at a very high rate of interest to pay off a debt contracted at a very low one.‡

Taking the average price at which the stock was issued, on the one hand, and the average price at which it was redeemed, on the other, under the operations of the sinking fund, the nation had been practically ever contracting new debt at the rate of 5 per cent. to pay off old debt bearing but 4½ per cent. interest. In other words, by the end of the forty-three years, dating from the outbreak of the war, during which Pitt's Fund was in existence, the nation was paying an increased annual one-half per cent. on all the money—some £330,000,000—which had been applied to sinking fund purposes, entailing an annual loss of about £1,600,000.‖ In addition there was the loss of capital entailed in the ultimate redemption of the Debt created for Sinking Fund purposes at a price far higher than the price of

* Actually £1,052,000,000. See for these figures *P. I. & E.* II. 718. Debt Return, *P. P.* 443 of 1858. Porter, p. 484, &c. Newmarch, *Statistical Journal*, June and Sept. 1855. Dudley Baxter, p. 9, &c.

† In addition to which there were the outstanding annuities of about four millions a year.

‡ *H.*, May 13, 1819.

‖ Year after year, there appeared on one side of the public accounts the entry "Redemption of Funded Debt. Sinking Fund applicable to the purchase of Stock," and on the other, "Creation of Public Debt, Sinking Fund Loans." On the one hand, a huge "TOTAL applied to the REDUCTION OF DEBT," and on the other, a total equally large and often larger, "TOTAL raised by the CREATION OF DEBT."

issue; not to speak of the annual expenditure incurred in carrying on, side by side, the double operation of issue and purchase of stock and the management of the sinking fund.

So much for the new way to pay old debts. Naturally such a result as this, made the very phrase "Sinking Fund" to stink in the nostrils of more modern financiers. But another form of sinking fund was attempted at the time of the Crimean War, when, under Sir George Lewis, it was enacted that, with the object of redeeming the war debt, a specific sum should for that purpose be voted each year during a certain number of years. As we have seen, the preaching of Mr. Gladstone and Mr. Disraeli, combined with the practice of the latter, very soon brought this description of sinking fund to an end, and it is one that is not likely to be revived in the same form.* Of the system of sinking fund hidden away under the name of "Terminable Annuities" we have already spoken.†

Sir S. Northcote's "New Sinking Fund" of 1875 was founded on a different principle to that of Pitt. Debt when redeemed was to be immediately cancelled; there was no hocus-pocus of a fund accumulating at compound interest side

* See *I. 160, 167.*

† In addition to the "old sinking fund," the "new sinking fund," and the "terminable annuities," there are now in existence five small special sinking funds, which annually redeem about £200,000 of debt. The chief one (about £86,000 a year) was created for the gradual redemption of the Exchequer Bonds issued in 1876 for the purchase of the Suez Canal Shares. Another is in order to redeem in fifty years the additional capital of the debt created in connection with the issue of 2½ per cent. stock in 1853. A third for a like purpose in connection with the issue of 2¾ and 2½ per cent. stock in 1884. A fourth (of £84,000) was created in 1880 in order to liquidate a long outstanding deficiency that had arisen in the Trustee Savings Banks founded in 1817. The deficit had arisen, on the one hand, from the unremuneratively high rate of interest formerly allowed to the depositors, and, on the other, from losses on the sale of stock, especially in the years 1847 and 1848, at low prices to meet demands. For a long time previously the Trustee Savings Banks had been paying their way, but their profits were not sufficient to meet the interest on the deficiency, which had consequently been ever increasing. In 1863 Mr. Gladstone had given a grant to the Savings Banks Fund of over a million and a half, in order to assist to extinguish this deficiency. But this had not sufficed, and the deficiency had gone on accumulating. In 1877 Sir S. Northcote, "to stop the leak," had arranged that the amount of the deficiency of interest should be voted every year, but he had taken no steps to replace the lost capital. In 1880, when the total deficiency (on the system of calculation then adopted) amounted to three millions and a half, Mr. Gladstone created a terminable annuity to run until 1908, in order to cancel a further million and a half of the accumulated deficiency. The outstanding deficiency still amounts to about £1,700,000. (See *P. P.* 51 of 1882, and 96 of 1887.) At the same time he reduced the rate of interest paid to the Trustees from 3¼ to 3 per cent., a rate that would still enable them to pay the depositors 2¾ per cent., against the 2½ per cent. allowed by the Post Office Savings Bank.

by side with an increasing debt. The annual sum required for the sinking fund was to be charged on the Consolidated Fund along with the rest of the debt charge; it would come into the Budget accounts, and would thus become an ordinary part of the annual expenditure, the surplus or deficiency of the year being reckoned only after the whole of this charge had been included. The fund itself would attain its maximum in three years, and would not subsequently involve any increasing burden on the taxpayers, while at the same time, as debt was redeemed, it would every year become more effective. It was fully intended, of course, that the fund should be founded on a *bonâ fide* surplus of revenue over the whole annual expenditure, including the sinking fund.

The plan was simple and intelligible. Previously to 1875 the debt charge had varied year by year as fresh debt was created or an old debt repaid, as interest was saved or as interest increased, as terminable annuities fell in or as terminable annuities were issued. Each year the money voted was sufficient, and no more than sufficient, to meet the interest on the debt, the terminable securities, and the cost of management. Under the new proposal, a fixed instead of a varying sum for the service of the funded debt would be annually voted. The fixed sum was somewhat to exceed the existing charge for interest, management and redemption, and the surplus was to be applied to the purchase and cancellation of stock. But, instead of the interest saved by the redemption of such stock simply going as before to the reduction of expenditure, the sum thus liberated, as well as the revenue saved by the falling in of any terminable annuities, was to go to increase the effective power of the sinking fund. The amount voted for the debt would remain unchanged year by year, and thus, so long as no fresh debt was created, or, what was the same thing, no deficiency in the general revenue was allowed to arise, the reduction of the debt would be annually accelerated, without any additional burden on the tax-payer.

For 1875 the estimated debt charge was £27,200,000. The fixed annual sum that it was proposed should be provided by Parliament for the purposes of the sinking fund was £28,000,000; in addition to which, and outside which, were to be provided such annual sums as might be required for casual or temporary purposes—such as interest on stock raised against local borrow-

ings, for fortifications, barracks, and subsequently for the purchase of the Suez Canal shares. The difference between the existing debt charge of £27,200,000 and the £28,000,000 in future to be voted, would constitute the "New Sinking Fund" for the redemption of debt; and if no further debt were created, this £800,000 would every year increase.

On this basis, if the system were steadily maintained, it was estimated that in thirty years no less than 192½ millions of debt would be redeemed; and by that time, in 1904, the sinking fund would amount to thirteen millions a year. * Moreover, "assuming besides, as (said Sir Stafford Northcote) I think we fairly may, that the surplus revenue would keep at the average of £500,000,"† this, together with the Life annuities and Land Tax redemption receipts, would in the same thirty years still further reduce the debt by 39¼ millions. Thus, in its entirety, and with its adjuncts, the scheme would, in thirty years, effect a reduction of debt of no less than £232,000,000. Results splendid indeed—but which remain embodied in the Parliamentary Paper of 1875 alone.‡

In 1874 Sir S. Northcote had laid down the principle that "having so large a surplus at our disposal, the right course under any circumstances is to apply some portion of it to the redemption of debt." ‖ Yet, as a matter of fact, no part at all of the real surplus of five millions and a half was so applied under the budget scheme; all that was done being first to absorb, and then to re-apply in a different form, some half million of money that up to then had gone annually to the reduction of the debt. ** At the same time, under the financial proposals of the same year, the annual Imperial expenditure of the country was increased by some two millions a year on account of the local grants-in-aid, and the revenue was permanently diminished by the repeal of nearly two millions and a half of taxation.

As in 1874, so in 1875, the preaching was better than the

* See *P. P.* 174 of 1875, and Budget Speech, *H.*, April 15, 1875.

† "Our position at the present moment is very different (to what it was fifty years earlier). We hope that we have attained such a position, where we may consider that we have an effective and permanent surplus, which we may ask the House to devote in the manner I have proposed to the reduction of our debt."—Northcote (Budget Speech, *H.*, April 15, 1875).

‡ The total amount of debt paid off by means of the Sinking Fund between 1875 and 1886 was nominally £4,900,000.

‖ Budget Speech, *H.*, April 15, 1875.

** See *II. 180*

practice. The debt charge under the provisions of the new sinking fund scheme, was to be raised to twenty-eight millions a year. But, even from the very beginning, the efforts made in the direction of the further reduction of the debt, were meagre indeed. The Government were "as lang in tuning their pipe, as anither wad play a tune." The foundation was out of all proportion to the colossal superstructure that was in imagination based upon it. The debt charge was not at once to be raised to the fixed sum of eight-and-twenty millions. From the £27,215,000 of the first budget estimate for 1875, it was to be raised in that year to only £27,400,000, in 1876 to £27,700,000, and not until 1877 would the full £28,000,000 be reached.

The financial year 1875 had opened with the "very small and unsatisfactory surplus," as the Chancellor of the Exchequer called it, of £400,000. Some £60,000 of this was given away, and there were undoubted, though undefined, liabilities to a considerable amount outstanding.* Of the surplus, thus reduced almost to a vanishing point, £185,000 was to be applied to the initiation of the new sinking fund. But no fresh taxation was to be imposed, and this £185,000 would, sinking fund or no sinking fund, have been, if realized, applied in the ordinary course under the operation of the sinking fund of 1829, to the extinction of debt. It was clear also that, unless the revenue unexpectedly improved (its "elasticity" had already been discounted), or the expenditure was considerably diminished, the "effective and permanent surplus" of half a million would not be forthcoming even in the current year; while it was on the cards, that the first small instalment of the money required to inaugurate the new fund that was within a short time to redeem untold millions of debt, might itself have to be borrowed!

Fortunately the ignominious necessity of borrowing to start the fund was obviated, chiefly however in consequence of the receipt of a pleasant little windfall, by the assistance of which a surplus was realized of just the amount required completely to carry out the original scheme.† In the next year, in 1876, there

* See *II. 198.*

† The miscellaneous revenue was specially swollen by the receipt of £253,000, savings on the Abyssinian votes of credit, kept back the year before; and £139,000, surplus balance of Ashantee vote of credit: in all £392,000.

was an estimated deficit, and the Chancellor of the Exchequer had the courage to impose an additional penny of income tax in order, among other purposes, to maintain the sinking fund intact,* and the year ended with a surplus, which if not imposing—£440,000—was sufficient. But this was the last, not only of the "effective and permanent surplus" of half a million a year, but of any surplus at all; and, in 1877, in the year in which the fund first attained to its full amount, in 1878, and in 1879, there were heavy deficits—in other words, money had to be borrowed to keep the sinking fund going.

Predictions should have some chance of coming true when the prophet has a hand in bringing about their fulfilment. But here was a prophet who, during his tenure of office, did nothing to ensure the success of, and everything to mar his own prophecies. It was not the fault of the sinking fund that the national expenditure rapidly rose. It was not the fault of the sinking fund that its author and his colleagues refused to impose sufficient taxation to provide for the annual obligations of the country, let alone for the half million of surplus. The new sinking fund fell on evil times. Expenditure was increased, deficits were allowed to accumulate, debts were incurred, the surplus dwindled and disappeared, the liabilities increased and multiplied. The sinking fund was itself suspended, not once but twice, and, in 1887, just when a diminished expenditure again brought about a surplus, and gave hopes of more effective action, the Chancellor of the Exchequer laid forcible hands upon the fund, and incontinently reduced it by a couple of millions a year.

It is a very trite, but very true saying, that the only way in which debt can be actually redeemed is by the maintenance of a real surplus of revenue over the whole annual expenditure. Every distinct plan of debt reduction—whether under the name of "terminable annuities" or of a "sinking fund"—is but a snare,

* Thus falsifying for once—for once only—the prophecy of Mr. Gladstone, who, the year before, when the sinking fund was proposed, had said, "We live in an age of wonders; we have seen many, and shall see many more; but there is one wonder we have never seen, and that is a Chancellor of the Exchequer who, in his place here, will propose a new tax (additional taxation) in order to maintain a sinking fund. History certainly has not produced any such creation; no such *lusus naturæ* has as yet appeared." (*H.*, May 7th, 1875). Pitt imposed taxation in 1786 in order to initiate his sinking fund.

as well as a delusion, if the Government of the day do not maintain the essential surplus. A "deficiency" is simply another word for a "loan"; a loan means an increase of debt, and it makes no real difference whether the money be taken from the balances, obtained by means of Exchequer Bonds or Bills, or by the issue of stock.

But the practice of those who administered the "new sinking fund" does not affect its principle, and, to my mind, its institution was a work of very considerable value. One advantage, at least, it possessed over its predecessors. The debt charge could be enlarged as in 1880, or diminished as in 1887; or the fund itself temporarily suspended as in 1885 and 1886, without invading its principle or damaging its framework. It introduced, as its author claimed it would, "a more regular, constant and stable action," into the system on which the National Debt is annually redeemed; and by its means taxation was kept at a higher figure than would otherwise have been the case. The proof of the pudding is, to a large extent, in the eating; and during the years that the sinking fund was maintained in its original form, with the addition made to it in 1880, a considerably larger sum was annually applied to the reduction of debt than would otherwise probably have been the case. And, on balance, even after taking into account the sums borrowed by its author to keep it going, when he shrank from the imposition of additional taxation, there was left a good sum to go towards the reduction of the National Debt. With somewhat greater financial courage at the Exchequer, the fund would have rapidly developed into a valuable adjunct to the other processes by means of which the debt is redeemed.*

The chief, perhaps the only disadvantage—a considerable though a temporary evil—arising from the creation of the new sinking

* The £28,000,000 in 1878 was increased to £28,800.000 in 1880, to run until 1885. The total amount which, if there had been no increase in the debt and the debt charge, would under the old system have been applied to the purposes of the debt between the creation of the sinking fund in 1875 and the year 1884 (before its temporary suspension in 1885) would have been 272 millions (£27,200,000 × 10). The total amount which was actually so applied, under the provisions of the new sinking fund (in both cases the realised surplus or deficiency in the years is excluded) was 283 millions, a difference to the good of 11 millions. The total deficiencies (in 1877, '78, '79, and '84) amounted to £8,822,000; the total surpluses (in 1875, '76, '80, '81, '82, and '83) came to £2,537,000, a balance of deficiency of 6¼ millions; leaving 4¾ millions to the credit of the sinking fund—not brilliant, but still something.

fund, was the over-sanguine expectations to which it gave rise. It was announced with such a flourish of trumpets, it was to be such a wonder-working process, that the public mind, puzzled by "the horse-shoe" calculation of redemption, was, as in the days of Pitt, under the impression that the new sinking fund was year by year "automatically" paying off debt, and that therefore there was the less need to make a sustained effort to avoid incurring it. "The Government," said the Prime Minister at the Mansion House in 1875, "had made a frank and vigorous effort to deal with the public debt of the country," omitting, as Lord Hartington subsequently remarked, to inform the Lord Mayor that the Government had not in the current year devoted an additional sixpence to the purpose. "The new sinking fund," said the Chancellor of the Exchequer in 1878—advancing "a merry sort of paradox"—"is operating successfully," and he forgot to say that the past year had ended with a large deficit, and that for the coming year there was every prospect of another. The scheme was received with great approbation, and the funds—the Three per Cents, "the most sagacious of all things inanimate," as Mr. Gladstone called them—deluded by the prospect of rapid redemption, rose a point. The nation looked to the promise more than to the likelihood of performance; and the performance unfortunately fell very short indeed of the promise.

# CHAPTER XXX.

## THE CALM BEFORE THE STORM.

### 1875—77.

The year 1875 had been financially a disturbed and anxious one. The year 1876 opened amid general anxiety, depression, and stagnation of trade. A momentary scare (now-a-days declared to have been entirely without foundation) had arisen lest Germany should attack France, in order to crush her, before she again became dangerously strong. The Eastern Question was coming up apace. Turkey had partially defaulted on her debt, Egyptian finance was in a critical condition, and foreign stocks generally were much out of favour. A great depreciation had followed the high prices; wages had fallen and were falling, and the harvest had been a bad one. But it takes some little time before a fall in prices and trade depression materially affect the revenue. People cannot all at once cut down their expenditure. They continue to hope against hope that things will mend, and that the sacrifice which is essential, if times do not improve, may be staved off; they exhaust credit as well as means before greatly curtailing their outlay. Conversely, when times improve, when profits improve and wages increase, those who are thus benefiting do not all at once launch out into increased expenditure.

And thus, in 1875, in spite of all the adverse circumstances of the year, the revenue from articles of general consumption had kept up well, and indeed had reached its highest point—a point to which it has never since attained. Spirits, both British and foreign, yielded their maximum receipts, the former producing £15,150,000; the latter, £6,140,000: in all £21,300,000, against £11,850,000 in 1860 and £17,300,000 in 1885. Wine produced £1,753,000, against £1,144,000 in 1860 and £1,194,000

in 1885. Malt, including sugar used in brewing, produced £8,160,000, against £6,200,000 in 1860, and what was equivalent to about £8,400,000 in 1885. The total receipts from "intoxicating liquors," and on the same basis of taxation, was in 1860, £19,200,000, in 1875, £32,200,000, and in 1885, £26,900,000.

The consumption of tea, sugar, and tobacco had been also large, but not abnormally so. The consumption of sugar in 1860 amounted to 9,270,000 cwt., in 1875 to 18,300,000 cwt., and in 1885 to 24,000,000 cwt. The consumption of tea, in 1860, was 76,800,000 lbs., in 1875, 145,300,000 lbs., in 1885, 182,400,000 lbs.; of tobacco, in 1860, 35,200,000 lbs., in 1875, 47,800,000 lbs., in 1885, 52,500,000 lbs.

It may be well against this to set the actual consumption of the intoxicants. In 1860 19,600,000 gallons of British spirits were consumed, 5,500,000 of foreign and colonial, and 6,700,000 of wine, a total of 31,800,000 gallons. In 1875 the figures were respectively 30,660,000, 11,850,000, and 17,240,000, a total of 59,750,000 gallons. In 1885 they were respectively, 27,350,000, 8,000,000, 13,770,000, in all 49,120,000 gallons.

The expenditure of 1875 had been swelled by considerable supplementary estimates—an era of supplementary estimates, which pointed to less care and less economy in the spending departments and at the Treasury, was beginning. On this occasion, however, a large portion of the supplementary estimates arose from exceptional and unforeseen causes.

Half a million of money had been required in consequence of a fresh arrangement and adjustment of the army accounts between England and India;* a further sum of £170,000 was voted for the same purpose in the following year; and from this time onwards, until another change was made, in 1884, the Indian Army charges, borne in the first instance by the War Office, appeared as a separate item in the public account. A sum of £238,000 had had to be voted to meet a realized deficiency in the Navy estimates of the previous year. The Army showed a saving of £100,000 over the estimate; and the Secretary of State was able to boast that, up to and including 1876, the War Office had never asked for a supplementary estimate, nor exceeded the estimate assigned to it.

* See *I. 284*, and *Appendix A.*

Among the supplementary estimates there were two items, both small in amount, but the one marking an extension of the territory of the Empire, the other, the initial step of a vast extension of imperial responsibility. A sum of £40,000 was voted for the cost of the annexation of Fiji, which had been forced upon an unwilling Foreign Office.* A sum of £76,500 was voted, the balance of the purchase-money and commission, over and above the four millions raised by terminable annuities, for the purchase of the Suez Canal shares, of which we will speak later.

The actual expenditure of the year 1875 had been £76,620,000 † against an estimate of £75,500,000. The revenue had amounted to £77,130,000, against an estimate of £75,625,000. Instead of the deficit which had been risked, a surplus of half a million had been realized; and the new Sinking Fund (which in the year had extinguished some £280,000 of debt) had so far proved itself to be a reality. During the year the Exchequer balances had been reduced to £5,820,000, and it was "clear," so said the Chancellor of the Exchequer, "that we have brought them to a point below which it would be wrong to sink them." ‡

* Among the items of this supplementary estimate was one of 18*s.* "for repairing the Club of the late Sovereign of Fiji," in order that it should be in a fit state for presentation to the Queen.

† This included a sum of £200,000 for the "localization of the forces," for which no ways and means was provided, and which came as a charge on the Consolidated Fund, reducing the surplus to this extent.

‡ The dealings in connection with the balances in the financial year 1875, give a good idea of the purposes to which they may be put :—

*Receipts :—*

| | | | |
|---|---|---|---|
| *Balance in hand*, March 31, 1875 | | | £6,265,000 |
| Debt incurred for | Local loans | £2,200,000 | |
| | Fortifications | 250,000 | |
| | Suez Canal shares (part) | 3,300,000 | |
| Added to balances | | | 5,750,000 |
| Surplus revenue | | | 590,000 |
| Payment for bullion and loans repaid | | | 1,596,000 |
| Temporary advances | | | 6,650,000 |
| | | | £20,851,000 |

*Payments :—*

| | | | |
|---|---|---|---|
| Loans | Advances to local bodies | £3,784,000 | |
| | Forts and barracks | 250,000 | |
| | Suez shares purchase | 4,076,000 | |
| | | | 8,110,000 |
| Purchase bullion | | 600,000 | |
| Old sinking fund | | 332.000 | |
| Exchequer Bills redeemed | | 37,000 | |
| Temporary advances repaid | | 6,650,000 | |
| | | | 7,619,000 |
| *Balance left in hand*, April 1, 1876 | | | 5,122,000 |
| | | | £21,950,000 |

For 1876 * the estimated expenditure amounted to £78,000,000, an increase of two millions over the ordinary expenditure of 1875; or (excluding increase on the debt charge, caused by the addition of £600,000 for the new sinking fund, the interest on the Suez Exchequer bonds, and for local loans), of £1,450,000, about half of which was for the Army and Navy, and the other half for Civil Service and Post Office—business outlay, educational outlay, and increased subvention to local rates. Both the Army and Navy estimates were "peace estimates." The increase in the Navy expenditure was due to the outlay on unarmed ships, of which we have already spoken. The increased expenditure on the Army was chiefly due to an increase, on the estimate, of some 4,000 men. But other causes were at work. There had been a momentary rise in the price of forage and provisions. The stock of rifles had to be largely increased. The increased pay to non-commissioned officers would cost something; the "deferred pay" for the men threw an additional charge of £118,000 on the current year.

The Chancellor of the Exchequer himself evidently regretted, as well he might, the large increase that had taken place on the war services. As a member of the Cabinet, he joined his colleagues in assenting to the proposals which had been made, but, "if I may look," said he, "at the matter more nearly, and from the standpoint of a Chancellor of the Exchequer, I might remark that these two services have laid very heavy burdens on the country." And no doubt he felt it hard that, while Mr. Lowe had rejoiced in large surpluses, and had been able freely to remit taxation, very much in consequence of the heroic exertions of his colleagues, such pleasant paths were closed to him, and he had to put up with deficits and to impose taxation—for it had already come to that.

The estimate of revenue was a very cautious one. The probable increase of revenue, after taking the remissions falling in the year into account, was only put at some £600,000; and even this estimate was somewhat too sanguine. Consumption was at last being rapidly contracted, and the revenue had almost wholly lost its elasticity.

* Budget Speech, *H.*, April 3rd, 1876.

With an expenditure of 78, and a revenue of only 77¼ millions, there was an estimated deficit of three quarters of a million; * "estimated deficit," a phrase to which men's ears had grown unaccustomed. A deficit not caused by deficiency of revenue—for the revenue was estimated to produce £77,270,000, against £77,330,000 of 1873; but caused entirely by increased ordinary expenditure, which had arisen in gross from £72,620,000 † to £78,000,000. The deficit could not, of course, be "left to take care of itself." The arrangement with reference to the sinking fund had never been stated, said its author, "as a law of the Medes and Persians;" but to suspend it in order to "meet a trifling deficit of £800,000" would be to reduce it to an absurdity. The first strain on the integrity of this sinking fund was manfully resisted; to meet the increased expenditure, taxation was to be imposed.

The idea, elaborated in the previous year, of minimising the oppressive and unfair nature of the income tax, by keeping it at a low and uniform figure, "ready only for some great emergency, and not to be called upon for trivial occasions," was to be abandoned. "I had hoped," said the Chancellor of the Exchequer, "that our tenure of office might not be marked by any addition to this particular tax, but the logic of facts"—in other words, increased expenditure—"is too strong for me." And now, though the occasion was certainly "trivial," though peace prevailed, though a "fair annual growth of revenue" was still expected, though there was no exceptional expenditure, the ways and means, in spite of the traditions of the Conservative Party, were to be raised entirely by direct taxation.‡ The income tax had never before, since its reimposition in 1842, been raised, except under considerable pressure, due to war, preparations for war, increased expenditure occasioned by wars elsewhere,‖ or for the purpose of fiscal reform; and in 1876, for

* At a cost of £26,000—which brought the deficit up to nearly £800,000—the tax levied on male servants, casually employed, or employed during only a portion of the day only, was repealed.

† Including the deficiencies voted in 1874.

‡ "I shall not forget the traditions of that (the Conservative) party, and I therefore will never give my consent to raising the ways and means of the year entirely by direct taxation."—Disraeli, *H.*, May 4th, 1871.

‖ Namely, in 1859, 1860, 1867, 1868, and 1871.

the first time in its existence, it was raised simply and solely to meet a deficiency on the ordinary expenditure.

Each penny of income tax was now producing the large sum of £1,800,000, and an additional penny would involve a gain of £1,480,000 in the year, and of £320,000 in the following year. But the estimated deficit was only £800,000, and the additional penny would produce more than was required. It seemed, therefore, to the Chancellor of the Exchequer a good opportunity of making an alteration in the incidence of the tax, by extending still further the limit of exemption and abatement. Total exemption was to be extended from incomes of £100 (to which it had been reduced in 1853) to those of £150; the deduction which might be made from the income before the tax was charged, was raised from £80 to £120; and the limit of income on which deduction was allowed, was raised from £300 to £400.* These exceptions and abatements would reduce the receipt from each penny by about £130,000, entailing a loss on the three-penny income tax of £390,000; on the year, £312,000. In all, then, £1,168,000 would be received during the year from the extra penny of income tax (with about £400,000 in 1877), and the deficit of £800,000 would be turned into a surplus of £368,000, which was to be carried forward.

The actual expenditure of the year 1876 was substantially the same as the estimate—just over seventy-eight millions. The revenue came to seventy-eight millions and a half,† leaving a surplus of £440,000. The tide of revenue had begun to ebb; all the branches of income had received a check; the receipts from tea, tobacco, and coffee, were stationary; those derived from wines and spirits of all sorts showed a serious decline; the railway tax, and that part of the stamp revenue which depends

* See *I. 310* and *II. 144*. In the two previous cases, when relief had been given to the smaller incomes, the change had been accompanied by a reduction of the tax all round. In this case, while nearly all incomes under about £350 were to be relieved —those under £150 by total exemption, those between £150 and £350 by the abatement received amounting to more than the additional tax imposed—the other incomes were to pay more. It was calculated that on Schedules D and E, out of 790,000 incomes assessed, 220,000 would escape altogether and some 400,000 would be further relieved, while 170,000 only would pay more in consequence of the additional penny of income tax. (See *H.*, April 6 and May 18, 1875.)

† Sir S. Northcote mentioned that the Crown lands had in 1876 yielded £410,000 of revenue, thus exceeding, "for the first time, the amount granted to Her Majesty on account of those lands, when the arrangement for the Civil List was made."

on trade, showed likewise a falling off. And it was just at this moment that wars and rumours of wars began to arise, to aggravate and to accentuate the depression of trade; while increased expenditure and increased taxation further weighed down the flagging resources of the country.

The Budget of 1877 was introduced in April, when certain war was impending between Russia and Turkey—a war which actually broke out only a fortnight later.* The estimate of ordinary expenditure amounted to £78,800,000. The Chancellor of the Exchequer could not give a very brilliant account of the prospects of the revenue of the current year; the country could "no longer rely upon that growing increase in the revenue to which we have been so long accustomed, and which seems to be the normal law of the revenue of the country in ordinary circumstances." Trade was now in such an unsatisfactory and depressed condition that no sanguine estimate of the future could be formed. At the same time, there was no occasion, he thought, to take a "very desponding view" of the situation. The resources of the country seemed to be still untouched, and it was probable that "the great consuming power of the people is only temporarily less powerful than it was." With force and truth he likened the revenue to the advancing tide. "We are, in fact, in the position of those who on the sea coast watch the rise of the tide. They see one wave follow another, and, although sometimes a succeeding wave does not rise higher than its predecessor, still the tide advances; and so, I hope and trust, will be the case in respect to the revenue of this country. But we have, of course, to look from year to year at each separate wave, and not at the general advance of the tide."

With trade bad at home and war inevitable abroad—a war into which it was possible England herself might be drawn—a most cautious estimate of revenue was essential; and the Chancellor of the Exchequer exercised a very wise and sound discretion in estimating, in 1877, rather for a contraction than for an expansion of revenue.† Happily the year ended rather better than it

* Budget Speech, *H.*, April 12th, 1877.

† The tax revenue was taken at identically the figure of receipt of the previous year, £66,370,000. But as some £300,000 to £400,000 of additional income tax,

promised, and instead of a falling off there was a practical equilibrium of revenue, even after allowing for some £300,000 of revenue received in the year through anticipatory deliveries out of bond.

The estimated revenue was put at £79,000,000, leaving an estimated surplus of £226,000. There was a surplus, and that was all; a surplus just sufficient to make the sinking fund a reality,* and to obviate the necessity of imposing further taxation, but not sufficient to allow of any remission. The Chancellor of the Exchequer again "marked time," and the only fiscal change made in the year was the abolition, at a cost of £6,000, of the small duty on appointments to benefices. If it had not been for the war expenses which sprung up and choked the surplus, the year would have ended in a satisfactory manner. The ordinary expenditure showed no increase over the estimate, while the revenue showed a gain, and the realised balance between them amounted to the substantial sum of nearly £900,000.

With the financial year 1877 peace expenditure was left behind. The Army and Navy estimates for 1877, introduced some six weeks before the Russian declaration of war against Turkey, were, like those for 1876, peace estimates; and when the expenditure on war preparations came, a short time before the close of the financial year, it was taken in the form of a vote of credit. With the end of the financial year 1877, came that war expenditure which o'ershadowed all, and completely and for ever altered the general features of the national finances.

Before entering, therefore, upon this latter period, it may be well to see how the expenditure of 1877 compares with that of 1873. For 1873 the "optional" expenditure—as we have had occasion frequently to notice, the fairest mode of comparison—amounted to just over 45 millions,† which itself was an increase of nearly two millions and a quarter over that of 1872.

from the penny imposed in the previous year, would this year be received, a diminished revenue was to that extent expected.

* The sinking fund was now a real and substantial item in the process of reduction of debt. The debt charge had arrived in 1877 at the maximum of £28,000,000, against the £27,000,000 applied to "debt" in 1874, and in this year, if nothing unforeseen happened, through this means some £900,000 of stock was to be cancelled.

† This is, as before stated, always after adjustment of "deficiencies," &c.

The corresponding expenditure for 1877 came to nearly 49½ millions —an increase of above four millions over that of 1873, and of nearly ten over that of 1869. The ordinary Army (excluding purchase) and Navy expenditure, together amounted in 1873 to 24¼ millions. In 1877 (exclusive of the vote of credit) they amounted to over 25½ millions.* "Business" absorbed £4,800,000 in 1873 and £5,000,000 in 1877, the profits having, however, increased only from £2,600,000 to £2,700,000. The cost of collection was the same, £2,680,000. Civil administration, of course, showed a very large increase, from £12,730,000 in 1873 to over £15,630,000 in 1877—an increase due partly to education, which from two millions in 1873 had risen to three in 1877,† and partly to the great extension of local subventions, which had risen from some two and three-quarter millions in 1873 to four and a quarter millions in 1877. The latter increase was not, however, expenditure in the ordinary sense of the term, for the object and the idea of the subventions were that they would relieve the rate to a like extent.‡

Passing from the "optional" to the "debt" expenditure, the annual charge (including the interest on debt issued to meet the demands of local bodies, and the interest on the Suez Canal Exchequer bonds,‖) had been raised from 26¾ in 1873 to very nearly 28½ millions in 1877, a sum equal to that annually applied in pre-'60 days; and a sum representing a much greater amount of annual repayment of debt than had been the case twenty years previously. But the total average annual reduction of debt, in the four years 1874—77 (inclusive), was, though considerable, equal to but little

* In one respect the comparison is specially advantageous for 1877, for the fall in prices of all material in the interval had been very considerable, in some cases amounting to as much as fifty per cent. Certain descriptions of iron had fallen from 115*s.* in 1873, to 42*s.* or 43*s.* in 1877; coal was about half the price it had been in 1873, the result being that iron steamers built in private yards, which cost £21 a ton in 1873, were, in 1877, costing only £14 or £15. The enhanced price of materials had, it was estimated, in 1873 increased the cost of the army and navy together by nearly a million beyond that of 1871, and now prices had fallen below those current in 1871.

† *Net Charges on Taxes* return. *P. P.* 237 of 1887. See *Appendix F.*

‡ Sir S. Northcote called these local subsidies "but a shifting of the burden of certain portions of the expenditure from a portion of the public to the public at large." —*National Review*, January, 1884, p. 616.

‖ Against these two items there must be put the receipts derived from the interest on local loan advances, and the annual interest on the Suez Canal shares paid by Egypt, in all £950,000 in 1877, against nil in 1873.

more than half the amount of that of the previous five, 1869—73. Between 1869 and 1873, after allowing for debt created for special and, in some cases, profitable purposes, and including the war expenditure met, there was an average reduction of debt of over nine millions a year. On the same basis,* between 1874 and 1877 the average annual reduction was only just over five millions. The difference was due to an increased expenditure, and to a less elastic revenue, as well as to the system of full estimate of revenue introduced in 1874.

The normal annual growth of revenue had been at the rate of some £2,500,000 in the first batch of years, and from 1873 to 1877, only at the rate of some £1,460,000 a year.† The natural growth of the revenue had not been enough to provide for the increased ordinary expenditure, and a penny of income tax had had to be added in 1876.

It must have been somewhat of a relief to the Chancellor of the Exchequer to have to present to the House, in 1877, only a humdrum Budget. He was now not only Chancellor of the Exchequer, but—*vice* Mr. Disraeli translated to the Lords‡—Leader of the House of Commons. Domestic reform had, indeed, dwindled to a minimum; but even to do nothing, with persistence and effect, consumes time, and necessitates attention. And foreign affairs were urgent and absorbing. No little care was required in getting up the 1,200 or so pages of the Blue Books relating to the Eastern Question; no little tact in giving, and in judiciously withholding, information; no little skill in justifying and explaining the action of the Government in their acceptance, refusal, or initiation of notes and protocols, or invitations to conferences, which fell as thick as leaves in Vallombrosa. Fully occupied in other fields, the Chancellor of the Exchequer had the less time to devote to matters of finance. As works of art his Budgets rapidly degenerated. The first introduced large and far-reaching remissions and proposals; the second dealt slightly

* The special expenditure being Suez Canal, four millions; local loans, about nine millions and a half; other investments about a million; forts and barracks about two and a half; some seventeen millions in all credited; and about £3,500,000 of war expenditure.

† Tax revenue 1873, £66,100,000; 1877, £66,880,000; taxes remitted, £4,800,000; taxes imposed, £1,400,000; net remission, £3,400,000.

‡ In August, 1876.

with the debt; the third modified, though it did not reform, the incidence of the income tax; the fourth did nothing at all. With war expenditure came financial chaos and confusion and the cessation of all attempt to maintain an equilibrium between the revenue and the expenditure; and the sixth and seventh Budgets, those of 1878 and 1879, did but present the spectacle of a man, not altogether strong, struggling with adversity.

# CHAPTER XXXI.

## THE EASTERN QUESTION.

### 1875—78.

The sessions of 1874 and 1875 had been busy and successful; but, by 1876 and 1877, domestic legislation had come somewhat to a standstill;* and the result of "a little more energy in our foreign policy," combined with certain untoward events, was already beginning to embarrass the finances of the country; while wars, and rumours of wars, had seriously affected trade, and proportionately diminished the revenue. The warlike services made increased demands on the Exchequer for ordinary purposes. Then came in rapid succession the "six millions," and the "supplementary estimates," followed by the Afghan War, and the Zulu War; while interference in Egypt, and the annexation of the Transvaal, were each destined seriously to swell the expenditure.

The first incident, in chronological order, was the sudden purchase of the Suez Canal shares in November, 1875. The Khedive had outrun the constable, and his finances were in a state of disorder. He was at his wits' end to know how to raise money to pay the interest on his debts. One asset he had—the Suez Canal shares, which had been allotted to him in consideration of the life, labour, and land that had been devoted to the creation of the Canal. The English Government were informed that the shares were in the market, and that "another party"—

* In the debate on the Address in 1877, the Leader of the Opposition declared that the Speech from the Throne "had attained successfully to a level—I will not say of dulness, because that would not be respectful, but of repose and reserve, to which I do not think any of its predecessors have attained." Lord Derby—leading the House of Lords—would not "waste time" by dwelling on the domestic points raised in the Speech, they were so "unimportant."

a French Syndicate—was after them. Thereupon they immediately offered to purchase the shares for a good price: the Khedive closed with the offer, and England became possessed of two-fifths of the whole number of shares in the Company, together with the influence which such predominance of ownership would bring in the management of the Canal.

The transaction, almost universally approved, was made much of by the Prime Minister, and be-littled by the Foreign Secretary, each according to his temperament. But it was generally agreed that England with her enormous Eastern possessions could not afford to look on and allow others to monopolise the Canal, and with it, perhaps, to control Egypt, and endanger the route to India. The shares were bought not so much because England herself wanted the influence that their purchase would bring, but in order to prevent them falling into the hands of others. As Lord Palmerston said of Egypt itself, before the Suez Canal existed, we did "not want it for ourselves any more than a man with an estate in the South, and another in the North, wants to possess the inns on the road; but he wants them well kept and furnished with mutton chops and post-horses." The purchase was intended more as a measure of precaution and prevention than as a prelude to action and interference. But one step led to another, and England was soon irresistibly drawn into the Egyptian quagmire, from whence there seems no extrication.*

The purchase price of the shares was four millions sterling; the dividend coupons on the shares had been surrendered for twenty-five years from their issue, and they would not rank for dividend

* Mr. Gladstone somewhat prophetically anticipated this result, in his speech on the question of the purchase of the Canal shares. He expressed his extreme reluctance that England should interfere in Egyptian matters. Speaking of the Cave mission, which had followed immediately on the purchase of the shares, he said that "when we have begun with one portion of the internal government of Egypt, we may pass on to another. We may come to occupy the entire ground by a series of degrees not difficult to contemplate" (*H.* March 6, 1876). In one way it may doubtless be said that the purchase of the shares, by involving active interference in Egyptian finance, and so ultimately necessitating the deposition of the Khedive, and English pledges to his successor, led logically to the bombardment of Alexandria, to Tel-el-Kebir, and to the Soudan expeditions. But, on the other hand, it is at least possible that at each point there were alternatives, and it is to be feared that the wisest course was not always chosen. To throw the whole blame on those who initiated a policy which led to disaster, rather than on those who carried it out, is like Dean Ramsay's friend, who blamed David for the bad metring of the psalms, forgetting that it was a Scotchman who had metred them.

until 1895. The Khedive was therefore to pay 5 per cent. interest, or £200,000 a year on the purchase-money until that time.*

But it was the revival of the Eastern Question that first brought this country into the region of active, and anxiously active, foreign policy. The "Eastern Question," after being in abeyance for some years, again forced itself on public attention in the summer of 1875. Bosnia and the Herzegovina rose against the Turk. The insurrection (due on the one hand, and chiefly, to the cruel oppression of the Christians by the Mohammedans, and in part to Russian intrigue) dragged its slow length along, marked by varying success, and never varying cruelty, until the three Imperial Powers—with England as an assenting party—stepped in at the end of the year with the "Andrassy Note," and insisted on the fulfilment of the reforms which the Turk for months past had been ostentatiously promising. The "Note" was accepted with effusion by the Porte, after which no further notice was taken of it.

In May, 1876, the German and French Consuls were murdered at Salonica, and the "Bulgarian Atrocities" made Batak a land-

* The total shares of the Company numbered 400,000, of which the Khedive held 176,602. The exact amount paid to the Khedive for these shares was £3,976,600; but, in addition, there was paid to Messrs. Rothschild—to whom, and not to the Bank of England, the Government applied to carry out the transaction—no less a sum than £99,000, simply for purchasing and holding the shares for a month or two, until such time as the purchase should be sanctioned by Parliament. The addition of the incidental expenses brought the total cost of the shares up to £4,076,000. The odd £76,000 was paid out of the revenue of the year, and the four millions were raised by the creation of Exchequer Bonds bearing 3½ per cent. interest, to be held by the National Debt Commissioners. The difference between the interest on the Bonds and the annuity of £200,000 received from Egypt—which was to be paid into the Miscellaneous Revenue—was to constitute a sinking fund for the gradual redemption of the purchase money. The five per cent. annuity was, in 1884, under the Egyptian liquidation arrangement, reduced to 4½ per cent. for a few years. The amount of purchase money unredeemed in 1886 was £3,325,000 (*P. P.* 209 of 1886). The shares are now valued at £10,500,000, and in 1895, when they become again entitled to rank for dividend, an annual sum (at the present rate of dividend) of £570,000 will be received by the British Government, and the £200,000 from Egypt will cease (see Budget Speech, 1880, *H.* March 26). In 1883, when it became clear that the Canal must be enlarged in order to accommodate the increased traffic, the Government came to an agreement with M. de Lesseps, whose monopoly of the Isthmus they believed themselves bound to admit—that England should advance £8,000,000 on easy terms to the Company, for the purpose of enabling them to cut another canal. The possession of two-fifths of the shares and the advance of the loan would have rendered English influence in the Canal absolutely overwhelming; but unfortunately, as I believe, the proposal was not favourably received, and was withdrawn, the Company themselves finding, as best they could, the money necessary for widening the Canal.

mark of history, and the names of Shefket Pasha and Achmet Agha for ever infamous. The still-born "Berlin Memorandum" of the same month, again insisting on the fulfilment of specific reforms, and threatening dire wrath on Turkey if she again disregarded the triple Imperial mandate, was prepared, but was not presented, as England, not then desiring "material interference in Turkey," refused to sign it. An English squadron was about the same time sent to Besika Bay—and the Porte became more obstinate than ever. The same month brought a revolution at Constantinople itself; Abdul Aziz was dethroned, and died, either by his own hand or by that of another. His nephew Murad was proclaimed Sultan, and further promises of Peace, Retrenchment and Reform were promulgated. Within three months Murad himself, found to be incapable, was made to give way to his brother, the present Sultan, Abdul Hamid. In June, Servia and Montenegro, unable any longer to hold back, threw themselves into the fray. Servia was soon defeated and compelled to sue for peace. An armistice, proposed by England, was agreed to by Turkey; but the Servians, acting on Russian encouragement, refused to accept it; war again broke out, and again the Servian army was routed. In October Russia came to her rescue, and insisted on the Turks granting an armistice and coming to terms with Servia.

On the invitation of England, a Conference of the Great Powers was held at Constantinople in the December of 1876 and the January of 1877, with a view of obtaining from Turkey some real guarantee for the fulfilment of the reforms she was so ready to promise and so slow to carry out. After many meetings, and much discussion, the demands of the six Great Powers were whittled down to the "irreducible minimum" of an International "Watching" Commission, and the appointment by the Sultan of Governors approved by Europe for the disturbed Provinces. But Turkey, who, under Midhat Pasha, was by way of showing Europe what she could do of her own initiative, would give no guarantee except her "word"—then about as good as her repudiated "bonds"—and the Conference broke up. Within a month the reforming Minister had been dismissed, and the prospect of amelioration in the condition of the Christian subjects was more remote than ever. At the instigation of Russia, who still pro-

fessed a desire for European accord, and with a view of creating an opportunity for mutual disarmament for Russia and Turkey, the "Protocol of London" was, in March, 1877, signed by all the Great Powers. It expressed the hope that Turkey would disarm; and it went on to state that unless the condition of things were improved, Europe would have to consider "in common" how best to put an end to the existing state of affairs. The Porte issued a defiant manifesto entirely refusing to be placed under European tutelage. Russia—and by that time she probably had no choice—declared war in April, 1877, seeking thereby to obtain by force that which the unanimous efforts of the Powers had not succeeded in obtaining by persuasion. The British Government at once proclaimed that it would maintain an attitude of "strict but conditional neutrality," and defined the Suez Canal, Egypt, the Persian Gulf, and Constantinople—the last to be neither "attacked, approached, nor occupied"—as points where "British interests" would be affected.

But meanwhile English dislike and distrust of Russia had been rising fast, and the warlike feeling had not been diminished by the famous declaration of the Prime Minister at the Guildhall, in the autumn of 1876, that England was able to sustain, in case of need, "a second or third campaign"—a declaration which was at the time taken as a direct threat to Russia, and which was immediately answered by a bellicose speech from the Czar.* Indeed in spite of Turkish barbarity, obstinacy, and repudiation, there still existed in very many minds in England a strong feeling in favour of our old ally Turkey, and of our traditional policy in the East. And there existed also a widespread suspicion that Russia had her eye on Constantinople, and come what might, she had been determined to force a quarrel on Turkey.

* "As the Lord Mayor has told us to-night, there is no country so interested in the maintenance of peace as England. Peace is especially an English policy. She is not an aggressive Power—for there is nothing which she desires. She covets no cities and no provinces. What she wishes is to maintain and to enjoy the unexampled empire which she has built up, and which it is her pride to remember exists as much upon sympathy as upon force. But although the policy of England is peace, there is no country so well prepared for war as our own. If she enters into conflict in a righteous cause—and I will not believe that England will go to war except for a righteous cause—if the contest is one which concerns her liberty, her independence, or her empire, her resources, I feel, are inexhaustible. She is not a country that, when she enters into a campaign, has to ask herself whether she can support a second or a third campaign. She enters into a campaign which she will not terminate till right is done."—Lord Beaconsfield at the Guildhall, November 9, 1876. See *II. 35.*

At first the advance of the Russian troops was rapid, but their victorious career was checked in July, both in Asia and Europe, at Kars, Plevna, and the Shipka Pass. In November and December, however, these three strongholds were almost simultaneously captured, and the complete collapse of the Turkish defence opened to the Russians the undisputed way to Constantinople. Peace negotiations ensued at the beginning of January, 1878, but nevertheless the advance of the Russians on Constantinople continued. The English Parliament had meanwhile been summoned for January 17th, as a precautionary measure in case of "unexpected occurrences;" but no supplies were at first demanded. On the 23rd January, an unaccountable delay having taken place in the signature of the armistice, the policy of observation was changed to one of menace. The fleet was ordered to enter the Bosphorus, and a vote of credit for six millions was demanded—more as a "vote of confidence" than with a view to specific expenditure. The very next day, however, the substance of the proposed terms of peace being communicated by Russia to the English Government, the fleet was countermanded, when actually at the entrance of the Dardanelles. On January 31 the preliminary Treaty of Peace was signed at Adrianople; but still the Russian troops drew ever nearer and nearer to Constantinople. Alarmed for its safety, the English Government again ordered the fleet through the Dardanelles, with orders to keep open the waterway and to protect life and property. Active military preparations were pushed forward, and Lord Napier of Magdala was gazetted to command an expedition should such become necessary. An arrangement was soon made whereby the Russians agreed not to occupy Constantinople or Gallipoli, and England not to land troops; but with the Russian army and the English fleet thus face to face the merest accident might have precipitated war.

On March 3, 1878, the Treaty of San Stefano was signed, and the war clouds seemed to be dispersing, when the sky was immediately again darkened in consequence of the refusal on the part of Russia to assent to the demand of England and Austria that the whole of the Treaty should be laid, without reserve, before the Congress of the Great Powers which had been summoned. Thereupon, the English Government deter-

mined to show force, the Reserves were called out, troops were brought from India, and the question was discussed in the Cabinet whether, as a vantage ground, Cyprus, or some other point on the Asiatic coast, should not be forcibly seized. The more energetic section of the Cabinet obtained the mastery; Lord Derby resigned, to be succeeded at the Foreign Office by Lord Salisbury. The war fever rose ever higher and higher; but at last Russia gave way, and in June the Congress met at Berlin.

Meanwhile Lord Salisbury, by a secret treaty with Count Schouvaloff, had to a large extent pre-arranged the Anglo-Russian differences; and by another secret treaty with Turkey, had pledged England to defend the Asiatic Provinces of Turkey against attack, Cyprus being handed over to England to enable her the more easily to fulfil her responsibilities,* while Turkey, in return, renewed her promises of reform.

By the Treaty of Berlin, Roumania, Servia and Montenegro obtained accessions of territory and were freed altogether from any connection with Turkey; North Bulgaria was formed into an autonomous but tributary State, South Bulgaria (named Eastern Roumelia), while still remaining a province of Turkey, obtained a constitution and was to be governed by a Christian ruler. Bosnia and Herzegovina were to be occupied and pacified by Austria, and Turkey was "recommended" to grant a large slice of territory to Greece. Russia was compensated for her sacrifices by a slice of Asiatic Turkey, with Kars and Batoum included, and by the restitution of Bessarabia at the expense of Roumania. Thus was Turkey not "partitioned," but "concentrated;" and "Peace with Honour" was brought back by the Plenipotentiaries from Berlin to a distracted Chancellor of the Exchequer, who had, on a falling revenue, to provide the ways and means for all the gunpowder and glory.

To go back to finance: on January 17th, 1878, the House met, and the Queen's Speech stated that "should hostilities be unfortunately prolonged, some unexpected occurrence may render it

* A useless though somewhat fascinating form of speculation consists in attempting to trace in Mr. Disraeli's novels the foreign policy of the Earl of Beaconsfield. But one sentence out of *Tancred* is sufficiently curious to bear repetition. "The English want Cyprus and they will take it as compensation . . . . The English will not do the business of the Turks again for nothing."—See Ewald's *Life of Lord Beaconsfield*, ii. 421.

incumbent on me to adopt measures of precaution." A week later the rapid advance of the Russian troops on Constantinople, and the fact that the terms of peace were studiously and suspiciously withheld, induced the Government to ask for a Vote of Credit of £6,000,000. The money was demanded in order to increase "the efficiency of the naval and military services at the present crisis of the war between Russia and Turkey," and to enable the Government to prepare for eventualities, and to enter the proposed Conference armed with the strength of the united nation. "If we are," said the Chancellor of the Exchequer, "to be of any use in this Conference, if the voice of England is to be heard, there must be some evidence, some outward and visible sign, of our being possessed of the confidence of England in the course we must take." * All through January and February there were rumours of war. Money was freely expended, and military and naval preparations were actively pushed forward. In the beginning of March, when peace was signed, and a Congress agreed on, there was a lull in the expenditure. Then came the difficulty in regard to the Treaty and the Congress, and further warlike preparations were made and increased expenditure incurred.

The Budget of 1878 was introduced on the 4th of April,† after the Reserves had been called out, but before the order for bringing the Indian troops to Malta had been definitely given. The Vote of Credit for six millions had been taken on January 28th, and, in the nine weeks that had remained of the financial year, the Military and Naval Departments had between them expended some three millions and a half—Army, £1,543,000, Navy, £1,916,000.‡ The Vote of Credit had been taken so near the

* *H.*, Jan. 28th, 1878. † Budget Speech, *H.*, April 4th, 1878.

‡ Throughout, in speaking of the Votes of Credit, and of the "war" supplementary estimates, both for the "Russo-Turkish War" and the "War in South Africa," it is necessary, in the text, in order to show the financial policy of the Government, to give the figures of expenditure at the amounts it was believed had been expended when the Budgets were introduced or the supplementary estimates presented. The actual expenditure under the Votes of Credit usually turned out somewhat differently to the expenditure which it was stated had been incurred. Sometimes this was in consequence of subsequent application of "savings" on the Army and Navy grants to the reduction of the expenditure on the Votes of Credit; sometimes in consequence of the ultimate real expenditure itself being in the end more or less than the rough estimate of outlay first prepared. Thus, for instance, in the above case, the actual ultimate audited expenditure allowed out of the Vote of Credit was only £3,195,400, instead of the £3,500,000 supposed to have been spent when the Budget was introduced. (See *P. P.* 104 of 1879.)

close of the financial year, that naturally, and properly, no Ways and Means had been immediately raised to meet it, the question of its liquidation being left over until it could be dealt with in the Budget, a few weeks later. Some £750,000 of the war expenditure had already been met from the surplus on the ordinary expenditure of 1877, and, for the rest, £2,750,000 Exchequer Bonds had been issued to run for a period not exceeding three years.

A Vote of Credit now-a-days, since 1870, runs during the current financial year only, and any unexpended balance has to be surrendered at its close.* In this case, the amount expended out of the Vote of Credit in the financial year 1877 had not completed the war expenditure that was thought neces-

* "A Vote of Credit," said Mr. Sidney Herbert in 1860, when defending the gross under-estimate of the cost of the Chinese expedition, "is not an estimate," but "a vote given of confidence in the Government . . I do not believe we could carry on war otherwise unless we choose to accept, knowingly and with our eyes open, delusive estimates, delusive criticisms, and delusive votes."—(*H.*, July 12th, 1860.) Mr. Dodson (Lord Monk-Bretton) clearly pointed out in 1879 that "there was a significant difference between an Estimate and a Vote of Credit. When a minister, a contractor, or whoever it might be, gave an estimate for expenditure, he gave what was understood to be something in the nature of an undertaking that the expenditure would be defrayed out of the amount set down; at all events there was reason to expect that it would be. But when a person asked for a credit it rather implied that he had before him an indefinite amount of expenditure, which he could not measure, and, therefore, asked for a round sum to be placed at his disposal, on which he might draw for the purpose of carrying on the business."—(*H.*, Aug. 4, 1879. See also *P. P.* 160 of 1856, p. 117, and Public Accounts Committee, May, 1886, *P. P.* 83 and 169 of 1886.) When, however, a pretty good estimate of the amount of money required for war or warlike purposes can be made, it is often taken in the form not of a "vote of credit" but of "supplementary estimates." Occasionally (and especially if the amount is small), the war expenditure, if anticipated at the time of the Budget, is included in the ordinary Army and Navy estimates. A Vote of Credit is granted in a lump sum, for a specific purpose, with no detailed appropriation to particular items. The "credit" is used only after the exhaustion of the ordinary Army and Navy grants. The "supplementary estimate" is merely an addition to certain items of the ordinary grants, and becomes merged into them.

Sometimes there are votes of credit and supplementary estimates for one and the same war. For instance, on account of the "War in Europe," in 1877 and 1878, both forms of grant were taken. There was first a Vote of Credit asked for when the actual expenditure required was entirely unknown, and the amount was fixed at six millions as much for the purpose of showing the temper of the Government and of the country as implying any specific necessities. Then came the original "supplementary estimates" of 1878, which were really a re-vote of that portion of the Vote of Credit which had legally lapsed at the end of the financial year 1877. By that time the danger of war was supposed to have almost passed away, and the amount of expenditure could be pretty accurately estimated: the money required was therefore taken in the form of supplementary estimates. These were exceeded, and additional supplementary estimates were taken, not in order to provide for the future but to meet liabilities already incurred. Later in the year,—for from 1877 and 1878, together, can be obtained specimens of almost every sort of war vote—the Zulu War broke out, and as the Government could do no more than make a guess (and a very bad guess it proved) at the amount that would be required, instead of further supplementary estimates a Vote of Credit was taken.

sary. But, instead of asking for a further Vote of Credit, it was considered better, as the requirements were known, to take the requisite amount in the form of Estimates supplementary to the ordinary Army and Navy votes. Thus the finances of 1877 and of 1878 were inextricably mixed; and were further complicated by the fact that the Vote of Credit was taken and spent (so far as it was spent) in the one year, while the Ways and Means were provided (so far as they were provided) in the other.

The sum required in addition to the expended portion of the Vote of Credit, was estimated in the Budget (with considerable mental reservations, as we shall presently see), at from a million to a million and a half, on account of the Army and the Navy, and the Reserves. The impression left on the mind of the House was that, in the opinion of the Chancellor of the Exchequer, probably the lesser sum only would be required, while the larger sum would amply cover all contingencies.* But from this estimate two considerable items of expenditure, practically already incurred, were omitted. A Kaffir (Transkei) War had been lingering on in South Africa since August 1877, and was not yet finished,—indeed it was not brought to an end before the following July. Some two or three hundred thousand pounds had already been spent on this petty war out of Army and Navy savings in 1877, and it was known that the expenditure had by no means been fully met; and only a month or two later it became necessary to ask for a further sum of three or four hundred thousand pounds. But, though the war was still dragging on, no hint was thrown out in the Budget that any of this money would be required.

The other item of expenditure, of which also no hint was

* The War Office, so said the Chancellor of the Exchequer, would, in addition to the million and a half already expended out of the Vote of Credit, require £500,000, and, for calling out the Reserves, if kept mobilized for three months, £400,000. The Admiralty, in addition to an expenditure of two millions already completed, might require some £600,000 more. These sums were put down "rather in order to make a round balance than to give any very correct information." A little further on, the Chancellor of the Exchequer spoke of his estimated liabilities—namely, "estimated deficiency of revenue to meet the ordinary expenditure of the year, £1,560,000, the Exchequer Bonds outstanding £2,750,000, and the supplementary estimates, which may be £1,000,000 or £1,500,000 . . I had estimated, and I think probably it was as safe an estimate as I could make, the sum we had to meet at £5,300,000 It might be £5,800,000; but I will take it at the lower sum," remarks clearly proving that he expected that the supplementary estimates would in all probability not exceed a million. (*H.*, April 4, 1878.)

given—which ultimately involved an outlay of three-quarters of a million—was that for the conveyance of the Indian troops to Malta. The measure had been agreed upon in principle by the Cabinet, a week before the introduction of the Budget, though the details had not then been arranged, and nothing had been definitely settled.* As the Government desired to keep secret their project of bringing to Europe Indian troops to redress the inequality between the British and Russian armies, and to show that England possessed an unlimited recruiting ground beyond the sea, it would have been impossible for the Chancellor of the Exchequer prematurely to have revealed the scheme by providing specific ways and means for its accomplishment.† But, as in the Budget statement he was giving professedly loose estimates of possible expenditure, it would have been easy enough, without letting out any secrets, or arousing any dangerous suspicions, to have asked for larger sums, for maximum instead of minimum amounts—sufficient at least to have covered some of the extra expenditure which it was almost absolutely certain would be incurred. As it was, the estimates of expenditure, and therefore of the deficit, actually given to the House, were perfectly worthless; and for that year, at least, Parliament was deprived of its constitutional right of exercising an effective control over the national expenditure and the financial policy of the Government. Of course, at the moment, the financial proposals of the Government appeared to be much more comprehensive and courageous than they really were; and after

* On the 27th of March the plan of summoning Indian troops to the Mediterranean "was considered by the Cabinet, and was accepted in principle by the majority of the Cabinet." Then came resignations and changes, and the matter was somewhat delayed, and it was not until April 12th (the Budget having been introduced on April 4th) that the first orders actually authorising expenditure of money were given. (See Sir S. Northcote's explanation as to why nothing was said in the Budget speech about the expenditure thus involved. *H.*, May 13th, 1878.)

† It is certainly questionable whether there was any need for the highly sensational mode in which the whole transaction was conducted. It might have been less theatrical and quite as practical. In proposing the adjournment for the Easter holidays, the Chancellor of the Exchequer had said, that "nothing in the situation was altered for the worse since the time we last had to communicate with Parliament on the subject (of England's relations with Russia and Turkey); and we say with the most perfect confidence that we see no reason whatever to apprehend any inconvenience from the rising of Parliament for the time we have mentioned" (from April 16th to May 6th). . . "I can assure the House that we hold this proposal (for the holidays) with no concealed designs, or any intentions of a mischievous character." (*H.*, April 16th, 1878.) The very next day the final order was given that an Indian contingent was to embark for Europe.

the ways and means of the year had once been settled, and the additional taxation voted, it was much easier to avoid the disagreeable necessity of further taxation than it would have been if the total liability had been confessed at the outset.

The statement which the Chancellor of the Exchequer had to lay before the House in opening his Budget of 1878 was by no means a pleasant one.* The past financial year had closed with a deficiency of two and three-quarter millions. The coming year opened with a deficit on its own account, estimated at from three to three and a half millions, the ordinary expenditure alone showing an increase on that of the previous year of over two millions. While the revenue was dwindling away the expenditure was taking leaps and bounds. The debt-charge accounted for £200,000 of the increase; the Civil Services for about a million, and the war services for most of the rest. Some £600,000 of the increase in Civil Service expenditure was due to the grant of the final instalment of the local subsidy promised in 1874. The Prisons Act of the previous year was now in force, and the Government had taken over the whole care and responsibility, and therefore, of course, the cost of the prisons.

The Army and Navy estimates for 1878 had been introduced during a lull in the storm, just after the definite signature of the Treaty of San Stefano, and when it seemed quite arranged that a Congress would meet, and before the Russian refusal again raised the likelihood of war. They were therefore peace estimates and normal estimates, the army estimates being "in no sense whatever of a character that would enable the country to conduct a war;" the navy estimates being "framed on a normal condition of affairs."† That being so, instead of an increase of expenditure on the fighting services, a decrease might well have been expected, for (exclusive of the Reserves) some four millions and a half additional to the ordinary grants had just been spent, or were about to be spent, in specially increasing their effectiveness. Some of this money had, no doubt, been wasted—public money spent in haste is always liable to be spent wastefully

* Budget Speech, *H.*, April 4th, 1878.

† *H.*, March 4th (Army, Mr. Gathorne Hardy), March 15th, 1878 (Navy, Mr. W. H. Smith).

—some had been expended on perishable articles. But none of it had been shot away or consumed in action, and much of it had been spent on guns, ammunition, ships,* and stores, which would be available for some little time to come. And, indeed, one argument used for "spreading" the expenditure over several years was that much of the money had been spent on articles that would be available for a long time to come. Nevertheless, the Army estimate showed an increase of £640,000, and the Navy of about £100,000, over the actual ordinary expenditure of 1877.

The revenue had been slowly going from good to bad, and from bad to worse, and that for 1878 had to be calculated on the basis of a probable falling off of over half a million; of which a part was, however, due to the delivery out of bond in 1877 in anticipation of increased taxation. The result was even more disastrous than the estimate, the actual falling off of revenue—the "contractility," if the term may be used as the opposite to "elasticity"—amounting to nearly three-quarters of a million. The total estimates of ordinary expenditure for the year amounted to the then enormous sum of £81,000,000, while the whole revenue that could be calculated upon only came to £79,500,000, leaving a deficit of about a million and a half on the ordinary expenditure, to which had to be added the unliquidated war expenditure of the previous year. The total war expenditure, according to the estimate, now stood thus:—Some 3½ millions had been spent in 1877, and a further million to a million and a half was acknowledged to be required, making a total of 4½ to 5 millions; and of this only three-quarters of a million had as yet been met. Adding the unmet balance to the estimated deficiency on the year, on the ordinary expenditure, a liability of between £5,300,000 and £5,800,000 was the result.

The deficiency of £1,560,000 on the ordinary expenditure—rightly distinguished from the other expenditure—as well as "the supplementary estimates of £1,000,000 or £1,500,000," were to be met in the year. "And we ought" (added the Chancellor of the Exchequer), "also to meet some portion of the

* The Admiralty had expended about a million and a half in the actual purchase of five ironclads, some with their armaments and stores complete, thus adding at once so much to the effective strength of the Navy. Much of the Army expenditure had been on horses, stores, guns and ammunition.

outstanding debt. I am uncertain what the supplementary estimates may be, but I hope, if the Committee will give me the ways and means I am about to ask for, I shall be able to extinguish the regular deficit, and to pay whatever the supplementary estimates may amount to, leaving a reasonable portion over to be applied to the reduction of the £2,750,000. . . We ought to make an effort to cancel that debt, not in the present year but in the year after, that is in 1879—80. . . I put aside at once—and I think the Committee will agree with me in putting aside—all idea of meeting that charge in any other way than by fair taxation. It would be quite out of the question to attempt to tamper with the arrangement for the reduction of the National Debt. Then, if we are to meet it by taxation, by what kinds? Everyone, I am sure, will naturally think of the Income Tax, and at the same time there will be, I believe, a general agreement that we ought not to throw ourselves upon the Income Tax alone. In any circumstances, I think that would be so. But certainly, the changes we have made within the last year or two in the incidence of the Income Tax, with a view to giving relief to a considerable number of persons in the case of that burden, must render it more and more objectionable to rely upon the Income Tax as our sole resort."

Twopence was added to the income tax to produce £3,600,000 in all, and in the year £3,000,000. The tobacco duty was increased by 4*d.* to produce £750,000.* The dog tax was raised from 5*s.* to 7*s.* 6*d.*, to produce £100,000.† Neither the increased tobacco duty, nor the dog duty, were particularly successful as impositions of taxation. The former produced only half instead of three-quarters of a million; the latter produced nothing at all. It is probable that the dog tax was raised too high, and thus, instead of producing revenue, only caused the evasion of the tax altogether, or the untimely death of

* The duties on unmanufactured tobacco were raised from 3*s.* 2*d.* and 3*s.* 6*d.* to 3*s.* 6*d.* and 3*s.* 10*d.*, and on "segars" from 5*s.* to 5*s.* 4*d.* and to 5*s.* 6*d.* in 1879. The increase of fourpence was subsequently found to have been fiscally unsound, sufficient to disturb the trade, and to lead to adulteration, but not sufficient to produce much revenue. It was repealed by Mr. Goschen in 1887. (See for history of Tobacco duties, *Appendix J.*)

† See *II. 84.*

many a "friend of man."* At a cost of some £80,000, two slight but just concessions were granted: on the income tax, an allowance for wear and tear of machinery was given; on the house tax, professional officers were exempted from duty.

The additional taxation imposed would, it was estimated, produce a gross sum of nearly four millions and a half, of which three millions and three quarters would be received in the current year, raising the revenue to £83,230,000, and leaving a surplus of £2,210,000, together with a further £600,000 to be received in 1879 wherewith to liquidate an estimated war debt and liabilities of some four millions still outstanding. On this basis, the total expenditure of four and a half to five millions on account of the "War in Europe," would be met to the extent of three-quarters of a million in 1877, two and a quarter millions in 1878, and three-quarters of a million in 1879, leaving about a million unmet, with more to follow,—no very heroic exertion surely; heroic, however, compared to that which was to come.

The financial year 1878 was the antipodes of 1874. That year opened with a surplus of some five millions and a half; remissions to an amount of £4,200,000 were given, and it ended with a substantial surplus. The year 1878 opened with a deficit of some five millions and a half; taxation to an amount of £4,200,000 was imposed, and it ended with a large deficit. And not only was one year a year of remissions and the other a year of impositions of taxation, but there was this most essential difference between them, that in 1874 an equal amount of direct and of indirect taxation was remitted, in 1878 the proportion of direct, as against indirect, taxation imposed was as five to one.

* The addition to the duty reduced the number of dogs brought to charge from 1,300,000 in the year ending Dec. 1878, to 896,000 in 1880. Adding to the latter number the 170,000 dogs now exempted under the Act of 1878 as "sheep dogs," there was still a diminution of nearly a quarter of a million of dogs brought to charge.

# CHAPTER XXXII.

## WAR EXPENDITURE.

### 1878—80.

The very great expenditure estimated for in the original Budget was by no means the measure of the liabilities of the year 1878. In August, Budget number two was presented.* It then appeared that, in consequence of the unexpected protraction of the state of tension, the supplementary outlay on the Army and Navy had grown from the "million or a million and a half" of the estimate, to £2,180,000; and, meanwhile, the two other liabilities for which no provision had been made had been incurred. It had cost £750,000 to bring the Indian troops to Malta, and some £340,000 had been spent on the Transkei war. The vague possibilities of April had thus given place to a more accurately defined estimate, in August, of £3,300,000.† And, in addition, a further sum of £400,000 might possibly be required for the Kaffir war, raising the total supplementary estimates to three millions and three quarters.‡

The total estimated expenditure was brought up to £84,785,000, and the revenue being still taken at £83,230,000, a deficit of one and a half millions was left, which, added to the unredeemed liabilities of 1877, gave a total deficiency of four and a quarter millions. It might naturally have been expected that, with the financial year yet young, and with the expected deficiency almost doubled since April, the Government would have proposed some additional taxation. But no; taxation was to be

* *H.*, August 6th, 1878.

† There were in addition two small supplementary items, £75,000 for Civil Service, and £20,000 for winding up the old Abyssinian accounts. The total of the supplementary estimates came to £3,367,000, exclusive of the £400,000 for the Kaffir war.

‡ See *infra, p. 251, n.*

avoided, and the expenditure was to be met by spreading it over a considerable period, in the Micawber-like hope that "something would turn up." *If* the revenue kept up, *if* the expenditure were not increased, and *if* the expected prolongation of the Kaffir war did not take place, then it was hoped that half of the debt might be met in 1879, and the balance, if possible, in 1880.* Thus the war expenditure, originally intended to be spread over three years, was now to be extended over four; and so insidiously fascinating was the system of "spreading," that, before many months were over, the four years grew into eight; and much of the unredeemed liabilities of 1877–79 had ultimately to be met in years which were themselves burdened with heavy war liabilities of their own.† Meanwhile, as spreading liabilities does not provide the "cold cash" wherewith to meet them, the deficit was to be immediately provided for by the further issue of another two millions of Exchequer Bonds.

Even the supplementary votes of August did not constitute the whole of the additional expenditure of this very unlucky year. In February, 1879,‡ Budget number three was presented, and a Vote of Credit for a million and a half had to be taken for the Zulu war, of which more anon. The further money required was to be obtained by an additional issue of Exchequer Bonds. The actual gross expenditure of 1878 ultimately amounted to £85,400,000 (a slight saving having occurred in the war expenditure), the revenue to £83,115,000, and the deficiency to £2,300,000.

The first Budget for the year 1879‖—these years abounded in manifold Budgets or financial statements—showed a surplus revenue of £1,900,000 over the ordinary expenditure estimated at £81,150,000. But there were liabilities yet unmet to an amount of five millions;** and the Zulu war was still raging. The

* "I think we may fairly estimate that we shall be able next year to pay off about one-half of the £4,300,000 to be left over from this year, and in the year following (1880) that we shall be able to pay off the remainder."—The Chancellor of the Exchequer, *H.*, August 6th, 1878.

† See *II. 311, n.*

‡ *H.*, February 27th, 1879. It was by this time ascertained that the additional sum of £400,000, foreshadowed in August as likely to be expended on the Kaffir war, had, so far as it had been required, been already met from Army savings.

‖ Budget speech, *H.*, April 3rd, 1879.

** Namely, the realised deficit of £2,643,000 in 1877, and of £2,300,000 in 1878. The war Exchequer Bonds outstanding amounted to £5,350,000, as follows; for 1877 £2,750,000; for 1878 one set of £2,000,000 and one (Zulu) of £600,000, the rest of the then Zulu charge falling on the year having been met from savings.

Chancellor of the Exchequer was "not in a position to give any definite or distinct estimate" in regard to the cost of the latter. The measure of its probable cost was contained in his assumption that the surplus of £1,900,000 would "be quite sufficient to cover any calls likely to be made upon us, in respect of that charge, in the current year, and also in respect of the sum of £600,000 which remains as (Zulu war) debt raised on Exchequer Bonds. But at all events, if it fails to pay the £600,000, I have every hope that the surplus of £1,900,000 will be sufficient to meet the charge whatever it may be that falls upon us in respect of the Zulu war." The surplus thus swallowed up, "We remain (said he) face to face with the (Exchequer) Bonds of 1877, amounting to £2,750,000, and the Bonds of 1878, amounting to £2,000,000, making together a total of £4,750,000."

Again, no fresh taxation was to be imposed—the "fair taxation" idea of the previous year had evidently been given up—but the accumulated liabilities were to be again carried forward. Four years before the Chancellor of the Exchequer had scoffed at the idea of there being "three ways of reducing the debt. . . Three ways! I must say I only know of one. . . For my part I take my stand on the principle that the only legitimate way of reducing debt is by maintaining a surplus of revenue over expenditure; and if my right hon. friend (Mr. Gladstone) means to tell us that he has found any machinery in the form of a juggle or puzzle, in connection with terminable annuities or anything else, which does not involve the maintenance of a surplus of income over expenditure, and if he thinks he is thereby going to reduce debt, he is only seducing the House into a false track, which ought to be repudiated at the first possible moment. I will do my right hon. friend the justice to say that I do not believe he meant what he said."* But now a "third course" had been discovered, a "*via media*" between liquidating liabilities by means of taxation and adding them to the debt. The system of "spreading" liabilities was to be raised to a fine art. Not a sixpence of extra taxation was to be imposed in the year, and yet, by some mysterious process, the debt was gradually to melt away. The two millions of Exchequer

* *H.*, May 7th, 1875.

Bonds issued in 1878 were to be renewed until 1880; the two and three-quarter millions of Bonds of 1877, until 1881. The £600,000 of Zulu Bonds were to be met in the current year, or in some future year, as Providence might ordain.

"Never put off till to-morrow," say the Spaniards—and they act up to their aphorism—"what you can do the day after," and an English Chancellor of the Exchequer now to the full adopted the idea. If the process had been reversed, if it had been arranged to meet the larger part of the accumulated liabilities in the current year and the smaller part in the future, there might have been something to be said for the plan of spreading liabilities. But to begin with no reduction at all, or at the most one of £600,000, to rise to £2,000,000 in the next and to £2,750,000 in the year after, was scarcely the mode best calculated to ensure the liquidation of the debt. And, as might naturally have been anticipated, the "unexpected" occurred, and when the renewed and again renewed Bonds fell due, there was nothing wherewith to meet them, and no effort made to redeem the pledge and liquidate the debt. Well might Mr. Goschen, in the days of his still unquenched enthusiasm for courageous finance, stigmatise the Budget as "shabby, flabby, and inadequate to the occasion, and wanting in that courage which was calculated to secure repute abroad and credit at home."*

Having said thus much, it is but right to let the Chancellor of the Exchequer explain in his own words† the arguments which weighed with him in taking a course which, as he himself confessed, would probably be stigmatised as "financially very discreditable." There were, said he, three alternatives open to him. First, the "heroic process" of meeting the debt by taxation. But, except "under a sense of strong necessity and absolute duty, I should look with very great reluctance upon any proposal to make, at the present time, a large addition to the taxation. . . . Trade is not what it should be, agriculture is not in a flourishing state," and "the condition of the people is one which should make us very careful in putting additional burdens upon them . . the present is not a time in which additional taxation

* *H.*, April 28th, 1879.

† *H.*, April 3, 1879. See also Sir S. Northcote's speech at Leeds, December 22, 1879, and his article in the *National Review* for January, 1884.

would be borne without distress." Secondly, there was the "unheroic process of carrying this sum to the permanent debt; and I cannot conceive anything more mischievous or enervating than that. I think the plan of adding a deficiency of this kind to the permanent debt of the country would be bad in itself, and bad in the example it would set." But there was a third course—"I prefer the *via media*. I hold that the true principle of finance is that you ought in ordinary years to maintain a good surplus of revenue over expenditure, sufficient not only to provide for the expenditure, but also to leave a margin for the reduction of the National Debt. I hold that you ought to make your taxation as little fluctuating as possible; that you ought not to be in a hurry, when you get an accidental surplus, to give it away; and that, when you have an accidental deficit, you ought not to be in a hurry to put on taxation. I think that frequent fluctuations in our small number of taxes are very much to be deprecated."

"When you see that your revenue is permanently too low for your permanent expenditure, then it is comparatively easy to add duties which will have to be kept on, and to which trade will accommodate itself. But when you have to provide only for one or two years, I think that then it will be found inconvenient. Under these circumstances . . . . the inclination of my mind certainly is that we should do that which is entirely in accordance with the spirit of the proposals we originally made in 1877–8, when the vote of credit was first proposed, namely, that we should extend payment of the debt over one year more,"—a sentiment irreverently followed, according to Hansard, by a laugh. On this, the Chancellor of the Exchequer proceeded to explain the divergence between his own private road and the broad and easy path of borrowing. "I have no doubt that it may be in the minds of some hon. gentlemen, that in proposing that we should extend this charge over an additional year, I am, in fact, violating the canon which I myself laid down, that we ought not to get into the dangerous practice of adding expenditure to debt. They may say that we are making an addition to the debt of the country. I wish to call the attention of the Committee to the very great difference which exists between taking a sum of £2,000,000 or £3,000,000, or whatever it may be, and simply adding it to your permanent debt, and so

putting it out of sight; and postponing the repayment of Bonds for another year, and so keeping your debt before your eyes, until you have satisfied yourselves that you can pay it. If hon. gentlemen cannot see the distinction between these two principles, I must say I have a very low opinion of their financial skill."

Strange such difference should be
'Twixt Tweedledum and Tweedledee!

The Zulu war turned out to be a considerably bigger and longer affair than had been expected; and in July,* 1879, it became necessary to introduce a second Budget—if a financial statement in which no provision is made to meet increased expenditure can be dignified by the name. The estimate of the expenditure on the Zulu war had risen from the £1,300,000 to £1,900,000 of the Budget, to no less than £3,000,000—£2,450,000 for the army, £500,000 for the navy, and £50,000 for contingencies—making an expected deficiency on the year itself of £1,163,000,† and raising the unliquidated liabilities to some six and a quarter millions.‡ But by this time the Government had become thoroughly accustomed to the situation, disinclination to increase taxation had got the better of arithmetic; and so, without further apology or compunction, "they lay low and kept on doing nothing."

The cost of the South African wars was not even yet completed. In March, 1880,‖ the Vote of Credit was further increased by £1,225,000—bringing it up to £4,225,000. This vote was taken in order to provide for the balance of the Zulu war and for a couple of other petty Kaffir wars—one in Griqualand West (of the previous year), the other for an expedition against Sikukuni (or Secocoeni, the monarch was not particular as to spelling)—

* *H.*, July 31st, 1879.

† Expenditure £84,218,000; revenue £83,055,000.

‡ The Chancellor of the Exchequer, in alluding to the cost of the South African wars, stated that the British Government hoped and expected to recover a substantial sum from the South African Colonies, in reduction of the accumulated war debts. An over sanguine expectation, seeing the Cape Government had themselves already spent from a million and a quarter to a million and a half on the war, and were hardly likely to raise much money for the purpose of repaying the British Government. In the end, four years later (in 1882), £250,000 was indeed received from Natal on account of the Zulu war, and £150,000 from the Cape on account of the Transkei war.

‖ *H.*, March 10th, 1880.

and a further small sum for the cost of the occupation of the Transvaal.* Only a few days of the financial year yet remained, and the additional money required was to be raised by a further issue of Exchequer Bonds.

Fortunately, considerable savings, both on the ordinary and on the extraordinary expenditure, were realised in 1879.† But, nevertheless, while the total expenditure, which had been raised by the supplementary requirements to £86,000,000, only amounted to £84,100,000, the revenue came to but £81,265,000, and a third deficiency—a deficiency of £2,840,000—was realised, bringing up the accumulated liabilities to seven millions and three-quarters.‡ Further; a loan of £2,000,000 had been made to India in the spring of 1879, to be repaid in seven years without interest, as a sort of contribution towards the cost—growing apace—of the Afghan complications; and this "loan" was rapidly turning itself into a gift.

The financial year 1880 opened, therefore, with nearly ten millions of liabilities, while between the estimates of the expenditure and revenue of the year itself there was a bare equilibrium, the surplus amounting to a merely nominal sum.|| But, a few days before the introduction of the Budget, the Chancellor of the Exchequer had introduced a Bill which, while altering and simplifying the scale of the probate and administration duty on personal property,** was intended, and very properly intended, to extract an additional £700,000 from these duties.†† The surplus was thus raised to three-quarters of a million; not much of a sum wherewith to liquidate the war debts. Again the ready pen was taken in hand, and again the Bonds were renewed in another form and re-marked, part of them this time being indorsed, not only "1881," but "1882," "1883," and even "1884." As the Chancellor of the Exchequer put it, in order "to institute a more

* Zulu, £703,000; Griqualand West, £222,200; Sikukuni Expedition, £200,000; Transvaal, £100,000. Most of this supplementary Vote of Credit was not additional expenditure, but simply a re-vote of the Zulu Vote of Credit of 1878, which had not been expended in that year.

† As much as £670,000 of the war expenditure was met from savings in the ordinary Army and Navy grants. This saving is included in the above statement.

‡ There were now, however, £8,100,000 of war Exchequer Bonds outstanding, in addition to the two millions for the Indian loan. See note **, *p. 251.*

|| *H.*, Budget speech, March 11th, 1880. ** See *II. 295.*

†† The Bill was read a second time a few days after the introduction of the Budget, and was then incorporated with the Customs and Inland Revenue Bill, and so passed.

regular way of dealing with the considerable amount of debt arising out of the recent war expenditure," six millions out of the £8,100,000 bonds outstanding (exclusive of the Indian loan) were to be "immediately extinguished" by being converted into a terminable annuity to run until 1885, while the remaining two millions of bonds were to be renewed for another year, and to be "extinguished by the ordinary processes of finance"—different processes presumably from those of the last three years.

The cost of the annuity thus created would amount to about £1,300,000 a year for five years. This charge was to be met from the new Sinking Fund, which was to be increased for the five years by £800,000 a year, bringing it up to £28,800,000, from the £28,000,000 originally fixed and reached in 1877. The fund was now annually redeeming about £600,000 of debt, so that the addition of £800,000 would more than cover the increased cost of the annuity. The additional annual burden on the country—the additional amount to be applied to the reduction of debt—would be, however, not quite £600,000 a year; for, against the £800,000 additional added to the Sinking Fund, there would be a saving of some £200,000, the interest on the six millions of Exchequer Bonds that were to be cancelled, a charge that had been so far voted outside of, and in addition to, the twenty-eight millions of fixed debt charge.* In other words, the additional amount to be applied to the debt was to be in all some £600,000 a year for five years; while in that period very nearly the whole of the new Sinking Fund, applicable to the reduction of debt, would be devoted to meeting the charge for the annuities.

The amount of expenditure is one thing, the way in which liabilities incurred are met is another. If war, or preparations for war, be undertaken, whether due to policy or to proconsul, they must be conducted, not indeed regardless of economy, but regardless of expense: that war is in the end the cheapest which is carried through most swiftly and efficiently. And while abstaining from criticism of the cause of the increased expenditure —though each one is entitled to his own opinion as to the

* Still leaving intact a charge of £73,500, the interest on the £2,100,000 supply-bonds. The interest on the whole of the bonds had, under the Sinking Fund arrangement of 1875, been voted outside and in addition to the twenty-eight millions applied to the purposes of the permanent debt.

policy which involved that expenditure—it is legitimate enough to protest against the totally inadequate provision that was made to meet it.

The rule that should govern the question of the liquidation of war expenditure—and under that heading may be included special expenditure on possible war—is not quite the same as that which should govern the question of the provision to be made for the ordinary expenditure in the year. The latter should, under any circumstances, be fully provided for in the Budget; and, if the amount of special expenditure required for the former be not very great, then the Chancellor of the Exchequer may be fairly expected at once fully to meet that as well. If, however, it be very heavy, then, indeed, the disadvantages of disturbance to trade and to profits which would arise from putting on heavy taxation one year with the certainty of its remission the next, should be taken into account, and the provision of a moiety, or some considerable part of the charge, will satisfy the sense of proportion. The right course in regard to war expenditure was thus expounded by Mr. Gladstone, in 1860:* "We propose," said he, "to apply to the sum which we still require, the same principle of a divided method of provision which we adopted in regard to the sum with which we have already dealt; that is to say, we ask the Committee to give authority for raising that sum in part by taxation, and in part from sources other than taxation. In so doing, we follow the rule which is commonly applicable to war expenditure."†

Judged by this standard, the financial policy of 1877 to 1880 must be written down as feeble and faltering. Of an estimated war expenditure of some twelve millions and a quarter,‡ under four millions and a half were met in three years from immediate taxation, and the balance of seven millions and three-quarters—

* *H.*, July 16th, 1860.

† This dictum, quoted in 1879, in defence of the action of the Government, he endorsed and further defined:—"In a case," said he, "where a considerable war expenditure arises, it is not unfair to make the provision for the expenditure partly from taxes and partly by means of loans and other temporary resources not included within the regular revenue of the year." He pointed out, however, that there was no analogy between the circumstances of 1860 and those of 1879, as in the former year a very considerable amount of taxation was imposed and in the latter year none at all—the whole of the deficiency being carried over.—*H.*, May 5th, 1859.

‡ This—£12,285,000—was the amount actual and estimated when the Budget of 1880 was introduced; the actual audited expenditure was a good deal less.

in addition to two millions for India—were borrowed and added to the debt.*

"It is impossible," said Huskisson in 1810,† "always to go on in this way, from expedient to expedient, satisfied with getting over the difficulty of one year without looking forward to the accumulating difficulties of the next." What would he have said seventy years later: when vast and ever-increasing expenditure was incurred, and, except at the very beginning, nothing was done to meet it—when, as time went on, ever smaller and smaller sums were applied to meet ever larger and larger accumulations of liabilities! ‡ If strenuous endeavours had each year been made to meet a considerable proportion of the liabilities of the year, then might have been beheld, the sight loved by the gods, a brave man, hand-in-hand with adverse fortune—the adverse fortune of ever-increasing warlike expenditure, disturbing and distressing the finances of each year. But neither gods nor men could have much delight in a Government who were continually shuffling off the liabilities of one year on to the shoulders of another, and who, as the position became worse, made the less effort to retrieve it. But men are the slaves of their characters; and if the Chancellor of the Exchequer showed a certain inability to rise to the situation; if he seemed wanting in courage, in decision, and (as he himself expressed it) in "go," these were but the defects of those qualities which made him, by common consent, more loved by his friends and less hated by his enemies than has been any party-politician of our time.

* Sir S. Northcote, in an article in the *National Review* for January, 1884, wrote of the liabilities as £12,285,000, of which "the amount raised by borrowing had been only (!) £8,100,000, showing that £4,185,000 had been provided by taxation." In consequence of savings the actual deficiency proved to be only £7,850,000. See also Budget Speech (Northcote. *H.*, March 11th, 1880.)

† *H.*, May 16th, 1810. (*Speeches*, i. 46.)

‡ The total taxation imposed on balance between 1877 and 1880 (first Budget) amounted to £5,750,000, but more than half of this was swallowed up by the ever increasing ordinary expenditure, which rose from 78 millions in 1876 to 81½ (est.) for 1880, leaving only £2,550,000 for the liquidation of the war debt.

## CHAPTER XXXIII.

### "1880."

The chief interest of the Budgets both of 1879 and 1880 centred in the war expenditure, and in the means proposed to meet, or to postpone meeting, the liabilities: they require otherwise but slight notice.

The most satisfactory feature about the Budget of 1879 * was the fact that, unlike its four predecessors, the estimate of the optional expenditure was less than the actual expenditure of the previous year.† Not only was the estimate satisfactory, but the actual ordinary expenditure in the year showed a considerable saving over the estimate, and the total ordinary expenditure, after deducting the war expenditure included in the Army and Navy estimates, amounted to some £350,000 less than that of 1878.

Though no changes of taxation of any sort were made in 1879, the revenue of that year unfortunately calls for remark. The receipts of 1878 had shown a shrinkage of three quarters of a million, those of 1879 showed a still more disastrous diminution. The depression of trade was indeed becoming daily more marked, not in England alone, but throughout the whole world. The working classes especially were suffering: wages were being reduced, often not without a costly and vexatious struggle, in which the workmen, striking on a falling market, were not only, by the logic of facts, usually worsted, but by the very strike itself accentuated their own distress and increased the gloom of the situation. And it was not the working classes alone who were badly off. There was not only a diminution of receipt on articles

* Budget Speech, *H.*, April 3rd, 1879.

† Mr. Gladstone put an unkind construction upon this fact, and spoke of the reduction in the estimates in the sixth year of Parliament as bearing "an unwholesome resemblance to that which is known as a death-bed repentance."

of general consumption, such as that on British spirits, on tea and tobacco, the consumption of which to a large extent marks the prosperity of the working classes, but the reduction in consumption was equally striking on articles which mark the pecuniary welfare of the better-to-do classes. "Those," said the Chancellor of the Exchequer, "who are in easy circumstances —or comparatively easy circumstances—have found it necessary, in the course of this year, to curtail their enjoyments; and as they have reduced the consumption of wine, so also have they reduced establishments; and they have kept fewer servants, fewer carriages, and so forth."

The Budget of 1880—Sir S. Northcote's seventh and last—was introduced after the dissolution had been announced, and excited but little interest.* To the proposals made there was no opposition, and in the few remaining days of the moribund Parliament the estimates were got through in a perfunctory manner and with unexampled rapidity. The estimated ordinary expenditure showed a considerable increase—the trot had not quite lasted through the avenue. The debt charge showed an increase of £300,000, chiefly on account of a greater charge for local loans. The Post Office showed a small addition. The Civil Service estimate was greater than the expenditure of 1879. Neither the Army or Navy estimates showed practically any reduction over the ordinary expenditure of the previous year; though, in regard to the army, the number of men had been reduced by about 4,000, though the cost of the soldiers' rations was "less than last year," and though the War Office was "reaping to a certain extent the advantage of some of the capital expenditure of 1878, under the Vote of Credit"†—a state of things which presumably applied as much or more to the navy. Trade seemed to be reviving a little, and the tax-revenue was therefore estimated at an increase of £470,000. The estimated surplus—expenditure £81,486,000, revenue £81,560,000—was £74,000. This surplus, as already detailed, was first raised to £774,000 by an increase in the probate duties, and then reduced

* Budget Speech, *H.*, March 11th, 1880.

† Col. Stanley on Army estimates, *H.*, March 1st, 1880. It had been intended to carry out the reduction of 4,000 men in the previous year, but the intention had been frustrated by the disaster of Isandlana, which necessitated the immediate despatch to South Africa of a larger number of men than had been anticipated.

by £590,000 for the purpose of increasing the new Sinking Fund. The estimated expenditure was thus raised to £82,076,000, and the estimated revenue to £82,260,000, and a small surplus of £184,000 was carried forward.

The spring and summer of 1878 had been to the Government, and especially to their chief, a period of success and of popularity. But as the months wore on, fresh difficulties arose—either of their own seeking or forced upon them—and difficulties not so easily or so satisfactorily settled as the Eastern Question. In the north of Africa, Egypt became a source of anxiety; in the south of Africa, a vexatious war broke out; and, meanwhile, India had entered into a disastrous conflict with Afghanistan.

In Egypt the Cave Mission of the autumn of 1875 * had gradually led, first to unofficial, then to semi-official, then to direct interference, along with France, in the financial affairs of the country. In November, 1878, an English and a French Commissioner of the public debt were appointed, the respective Governments practically pledging themselves to maintain them in office; but in April, 1879, the Khedive arbitrarily dismissed the Commissioners. In June, the Porte, at the instigation of France and England, was induced to depose Ismail, and to proclaim his son Tewfik as Khedive. An English and a French representative were appointed as "Comptrollers General" over the whole financial system of Egypt, irremovable except with the assent of their respective Governments. The "Dual Control" was fully established; and the two Governments gave it to be understood that as they had placed Tewfik on the throne, they intended to maintain him there. For a time, however, all was quiet in Egypt, until in 1881 the proceedings of Arabi Bey caused a rude awakening.

In March, 1877, the Transvaal, as was then believed, with the full assent of the Boers themselves, was annexed to the British Empire. The Boers and the Zulus had always been in a constant state of warfare; and it was naturally irritating to the warlike

* Immediately after the purchase of the shares, Mr. S. Cave — the English Paymaster-General—was, at the request of the Khedive, sent out to Egypt to examine and to report on the financial condition of the country. In the spring of 1876 Sir R. Wilson was "selected" by the English Government to proceed to Egypt as financial adviser to the Khedive.

Zulus to have the usual outlet for their martial ardour closed to them by the annexation. The feeling of annoyance was aggravated by difficulties that arose between them and the English Commissioner, both sides being to a certain extent in fault. The dispute grew; and, finally, the English Commissioner became seriously alarmed at the attitude of the Zulus. Thinking, perhaps "thet peace, to make it stick at all, must be druv in with bagnets," he, against the wishes and contrary to the instructions of the Government at home, despatched in December, 1878, an ultimatum containing almost impossible terms,* to which an answer was demanded within a month. The terms were refused, and the English troops advanced into Zululand. A few days later, on January 22, 1879, occurred the disaster at Isandlhana, and the Cape Colony was apparently at the mercy of the savages. The news of the disaster arrived in February,—there was then no telegraph nearer than St. Vincent. A vote of credit was at once taken, and nine thousand men were immediately despatched to the Cape. The war continued, with much slaughter of spear-armed Zulus by the English breech-loaders in the different encounters that took place, until the summer, when, at last, Ulundi was taken and Cetewayo captured.

In the autumn of 1879 England engaged in some smaller wars with other native tribes, ending more or less successfully, but costing money. The total cost of the Zulu war to England, and that of these other little wars, came to in all about £5,500,000 in 1878 and 1879.†

The Afghan War—the backwash of the Eastern Question—began in 1878. Since 1873, negotiations between England and Russia had been on foot with a view of defining their respective spheres of action in Central Asia, and especially with the object, on the part of England, of delimitating the territory of Afghanistan, viewed in the light of a buffer between Russia and India. But nothing very definite had come of the negotiations, except

* The terms were that the existing military system among the Zulus should be abolished. That Cetewayo should accept the presence and advice of a British Resident. That the missionaries should be unmolested. That men should not be put arbitrarily to death. That a fine should be paid.

† See Report of Comptroller and Auditor-General, *P. P.* 166 of 1881.

constant and reiterated promises on the part of the Russian Government that they would go thus far and no farther—promises which, either by design, by the logic of facts, or by the ambition of somewhat irresponsible frontier officers, were always broken. Meanwhile the Russians approached ever nearer and nearer to Afghanistan.

Latterly, the Government of India had come to loggerheads with the Amir. He was suspicious of our advance to Quetta, we were jealous of his apparent coquetting with Russia; and about the year 1875 the English Government came to the conclusion that in spite of Afghan prejudices, it was necessary for the maintenance of their predominant influence in Afghanistan, to have a British Resident, if not at Cabul, at least at Candahar. But an opportunity for interference did not at once arise. Meanwhile, the Eastern Question had been coming up apace, and the old antagonism between Russia and England had revived. The Russian reply to the despatch of Indian troops to Europe was an attempt to embarrass England in Central Asia. A Russian Mission was sent to Cabul, and, as it was believed, was received with open arms by the Amir. This the English Government strongly resented, and the old policy of "masterly inactivity" was changed into one of active interference. It was determined that an English Mission of equal or greater authority should be despatched to Cabul, with a view also of instituting a permanent Residency there. The Amir, on his side, greatly objected both to the Mission and the Resident; and refused to allow the former, which had been despatched in September, 1878, to proceed across the frontier. An apology, and the reception of the Mission, were demanded; and, on refusal, war was declared in November. An advance was made, and Cabul easily occupied by the British troops. Shere Ali fled, and died soon after a wretched fugitive, and his son Yakoob was established in his stead. In May, 1879, the Treaty of Gandamak was signed, by which, in consideration of an annual subsidy, the Amir agreed to receive a representative of the Indian Government at Cabul, and to cede certain border territory. The "haphazard" frontier of India was to be rectified, in order that "complete command and possession of the Gates of the Indian Empire" might be acquired.

By the Treaty of Gandamak the Afghan Question seemed to be

satisfactorily settled. A British Resident was sent to Cabul, and the British troops were withdrawn. Four months later the tragedy of 1841 was re-enacted; Cavagnari, like Macnaghten before him, was murdered. A fresh expedition was immediately despatched, which re-captured Cabul and deposed the Amir. There were plenty of aspirants for the vacant throne, but no one person seemed sufficiently strong and influential to be able to maintain his position if the English troops were withdrawn; and for two years Afghanistan—far enough from being "strong, friendly, and united"—was on our hands in a state of hopeless confusion. A defeat near Candahar in the summer of 1880 gave occasion for the brilliant march of General Roberts across the country, from Cabul to Candahar. For three weeks he and his army disappeared into space, to re-appear victorious and successful. Gradually order was evolved out of chaos. One competitor proved stronger than the others, and finally the British Government recognised Abdurrahman as the new Amir, pledging themselves to defend Afghanistan from unprovoked foreign aggression. Cabul first, and subsequently Candahar, were evacuated, and, in 1881, the last of the British troops retired across the frontier. For a few years Afghanistan ceased to be a source of anxiety, until, in 1885, the nearer proximity of Russian troops to her frontier, combined with our difficulties in the Soudan, appeared to Russia a good opportunity of striking a further blow in Central Asia. War was averted by negotiation, and the difficult question of the delimitation of Afghanistan settled by treaty: a treaty that will probably last until Russia sees an opportunity for a further advance—so long and no longer.

In consequence of the ultimatum dispatched in the autumn of 1878, Parliament was called together in December to be informed that the Empress of India* had declared war against the Amir of Afghanistan. The cost of the war was not then expected to amount to any very large sum, and the war being, it was argued, an Indian not an Imperial affair, England was not to be asked to contribute towards its cost.† As time went on the estimate of the cost of the "late war,"—as, in the spring of 1879, the Secre-

* The title of Empress of India had been added to the other Royal Titles in 1876.

† *H.*, Dec. 9 (Lords) and Dec. 16 (Commons), 1878. The estimate of the cost of the war for the current financial year was £1,200,000.

tary of State somewhat prematurely called it,—* increased. In May, 1879, the cost was put at £2,670,000; and it was agreed that England should advance to India a sum of two millions sterling, without interest, re-payable in seven years; and thus, while India would pay £2,350,000, England, by loss of interest on her loan, would contribute some £320,000.†

The renewal of the war, after the murder of Cavagnari, added enormously to the expenditure. And, in 1880, the Liberal Government turned the loan of two millions into a gift and added another three, making, in all, a contribution from the British Exchequer of five millions towards the cost of the war and the occupation. The two millions had been advanced in 1879, and the additional three millions were to be paid to India in six yearly instalments of half a million each, from 1880 onwards.‡ As against the two millions already paid a terminable annuity of about £120,000 was created to run until 1906, at an increase to the debt charge of £60,000 a-year. ||

The cost of the war was, as usual, all through enormously underestimated by the Indian Government. As late as December, 1879, after the renewal of the war, the Indian estimate of the whole cost was only put at about seven millions. In February, 1880, the estimate had risen to nine and a quarter, of which three and three-quarter millions were for the frontier railway.** The ultimate cost—including five and a quarter millions for the railways—was nearly 23½ millions, of which India ultimately bore about eighteen and a half and England five millions.††

Great expenditure and high taxation necessarily curtail the powers of production and of consumption. Trade and capital are beyond everything timid. At the first whisper of war, confidence, commerce and investment cease or are greatly curtailed. Indeed, it is not so much war itself, as the fear of war, which disastrously affects trade. War once begun, merchants and traders at least

* *H.*, May 22, 1879.

† See *H.*, Budget Speech, April 3, May 22 and July 25, 1879.

‡ Ultimately the sum was paid as follows: half a million in each of the years 1880, 1881, and 1882, a million in 1883, and a quarter of a million in 1884, and the same in 1885.

|| This annuity was redeemed in 1883.

** C. 2560 (1880), pp. 4, 7, 74.

†† See *H.*, July 5, 1880, August 17, 1880, March 21, and August 22, 1881, Budget, April 5, 1883. C. 2560, 2617 (1880), 2772 and 2840 (1881), &c.

know pretty well how they stand. But the approach of war, and the likelihood of war, give rise to uncertainty and to a feeling that it would be rash to accept new bargains, or to launch out into fresh operations, when, before they are completed, the whole basis of the arrangement, the range of prices and of profits, may be altered. It was not the actual crowing of his neighbours' cocks which exasperated Carlyle almost beyond endurance, it was the anticipation of the next crow.

It was the old story. The years in which revenue was least elastic were overburdened by great expenditure; the years in which revenue had been most elastic, had been relieved by constant remissions of taxation. The bad times immediately following on the collapse after the inflation, had been aggravated by disturbance to trade and by the great expenditure caused by the manifold embroglios into which England had been plunged. The distress had been accentuated by a series of bad harvests, by the fall in foreign credit, by Indian famines, and by the enormous depreciation which had taken place in the price of silver. In 1875, the outlook had still been pretty good. By 1876, trade, especially the coal and iron trades, previously so flourishing, had become very much depressed. By 1877, the whole outlook was gloomy; every branch of industry was depressed. The next year showed no improvement, and brought with it many mercantile failures, repeated reductions in the rate of wages, embittered and prolonged strikes and lock-outs. In 1879, but little alleviation was visible; while in that year the agricultural interest, which had been suffering enormously from a succession of bad harvests, received a further, a most serious loss, the harvest being most disastrous.* By 1880, with peace secure, there was a decided revival, greater confidence, and a better outlook; but the improvement was not of long duration.

The lengthened depression caused some murmurs to arise against the free trade system of England, and led to an interesting debate in the House of Lords in 1879, in which Lord Beaconsfield, while still showing a certain hankering after

* "The remarkable feature of the present agricultural depression is this, that the agricultural interest is suffering from a succession of bad harvests, and that these bad harvests are accompanied for the first time by exceedingly low prices. . . . . In old days when we had a bad harvest we had also the somewhat dismal compensation of higher prices."—Lord Beaconsfield (*H.*, March 28, 1879.)

reciprocity and a certain desire to repeat the "musty phrases" of byegone years, declared that, "practically speaking, reciprocity, whatever its merits, is dead. . . the opportunity, like the means, has been relinquished." The nation had, by the fiscal policy of forty years before, relinquished the means of negotiating Treaties of Reciprocity. England could neither effectually threaten those countries which imposed protective duties against English goods;* nor had she the wherewithal to induce them to grant her better fiscal terms.

The session of 1880, the last year of the Parliament and of the Government, opened in February, and the Queen's Speech as as well the speeches of Ministers indicated an intention of carrying on the Parliament to the completion of its full seven sessions. Europe was peaceful, Egypt was momentarily in repose, the Zulus had been crushed, the pugnacious Basutos had been dispersed, and the Boers, though not ceasing to protest against the annexation of their country, were not yet in arms. In Afghanistan, the worst seemed over; the massacre of Cabul had been avenged, and the British-Indian Government was merely waiting to get out of the country as quickly as possible. The Ministry still seemed to be popular. In the case of their predecessors, the condemnatory handwriting of the bye-elections had been visible on the wall, and the interpretation had been plain enough before the general election came. In their case, though, from time to time, they had lost elections, yet they had won them too; and at the beginning of the year Liverpool and Southwark had emphatically declared for the Conservative cause.

The first two sessions of the Parliament had been sessions of considerable legislative as well as financial activity. Acts relating to Sanitation, to Factories, to Friendly Societies, to the Liquor Laws, had been passed. The law of "Master and Servant," and of Trades Unions in regard to combination, was amended and placed on a juster and sounder basis. "The law of conspiracy," said Mr. Disraeli at the Mansion House in 1875,† "has been dealt with in such a manner that no longer can it be said that an aggregate body of men can be convicted of a crime of which, if one

* *H.*, April 29, 1879. † August 4, 1875.

had been tried individually by law, it would be recognised that he was innocent." After the "scene" with Mr. Plimsoll, a Merchant Shipping Act had been passed, which had been improved the following year. An Agricultural Holdings Act was passed, giving compensation to tenants for their improvements; an Artizans' Dwellings Act was passed; a Land Transfer Bill became law—Acts somewhat too permissive for the taste of the Opposition.

But, from that time forward—for when foreign policy comes in at the door home reforms fly out of the window—domestic legislation tailed off, and became, as Mr. Bernal Osborne said of Lord Palmerston's, "paternal but stationary." In 1876 there was an Education Act, and a little later on an Irish University Education Act. An Act to permit Unlimited Bank and Joint Stock Companies to limit their liability, a "Workshop" Act, a Highways, a Bridges, and a Rivers Pollution Act were passed. The Colorado Beetle had an Act all to himself. The free use of the "harmless necessary cat" was somewhat further curtailed. A County Board Bill was once attempted but speedily dropped *—and that was about all the domestic legislation between 1876 and 1880.

There were but few changes in the Cabinet. After the session of 1876, Mr. Disraeli became Lord Beaconsfield. In 1877, Mr. Ward Hunt had died and was succeeded at the Admiralty by Mr. W. H. Smith, then Secretary to the Treasury. In 1878, Lord Derby and Lord Carnarvon resigned, and were succeeded, the one at the Foreign Office by Lord Salisbury, the other at the Colonial Office by Sir M. Hicks-Beach; Mr. Gathorne Hardy (now Lord Cranbrook) going to the India Office vacated by Lord Salisbury, and Colonel Stanley succeeding him at the War Office. The Government were, in 1880, still strong in ability, and thoroughly well supported in both Houses of Parliament.

Within a month after the meeting of Parliament, all was changed. The House elected in 1874 was dissolved; and the result of the appeal to the people was perhaps an even greater surprise than that of six years before; the verdict of 1874 was completely reversed. The Government had missed their chance. During the eighteen months that had elapsed since Lord Beacons-

* In 1879. Introduced February 20, 1879.

field had come back bringing "peace with honour" from Berlin, misfortunes had fallen thick upon them; instead of taking their popularity at the flood they had allowed it to ebb away. Doubt had arisen in the public mind whether much or anything had been really gained by the Eastern policy of the Government—whether the game had been worth the candle. The steam plough was not as yet civilizing Asia Minor; and Cyprus, not as yet a "place of arms," was nothing but an expense. Interference in the internal affairs of Egypt, though necessary, had hardly been popular. Whether fully responsible or not for the Zulu war, the Executive were held responsible for its misfortunes and its cost; the Afghan business had turned out very differently to expectation—and both incidents had been very costly. Home legislation had not of late been inspiriting or successful. Obstruction had, it was said, been allowed to rear its head in a way that never should have been permitted; while the futility of the "new rules" had been amply proved. The financial policy of the Government had not commended itself to the country. A proposed London "Water" Bill disgusted the London electors by the extravagance of the proposed compensation to the companies. The depression of trade was largely attributed to the warlike tendencies of the Government.

An Administration that has held office for five or six years has many enemies: an Opposition can hardly do much wrong. The Liberal party, whose dissension had so often before been the opportunity of their opponents, were again united. Those who had abstained before abstained no longer: Whigs, Liberals, and Radicals, Liberal Churchmen and Dissenters all worked cordially together against the Government; and the result of the Election was the return of a Liberal majority of some 45 over both Conservatives and Home Rulers ("nominal" as well as real) combined.* After a slight hesitation, after Lords Granville and Hartington—who had nobly and admirably served the party

* Liberals 349, Conservatives 243, Home Rulers 60.—Ewald, *Life of Lord Beaconsfield*, ii. 541. The *Times* classed them as Liberals 351, Conservatives 237, Home Rulers 65. There were a larger number of new members in the House of 1880 than in any other Parliament except that of December, 1831. Then 280 new members had been elected, in 1880 236 were returned; in 1868 there had been 237, in 1874 231, some of whom in each case had been in the House before.—*Anecdotal History of Parliament*, p. 61.

in its hour of defeat and humiliation—had first been respectively sent for, Mr. Gladstone, for whom the electorate had specifically declared, and to whose eloquence and energy the victory was chiefly due, was commanded to form a Government.

The financial results of the six years of office of the retiring Government cannot, as we have seen, be said to have been eminently satisfactory. Something was done to place the national accounts on a simpler, clearer, and more intelligible basis. The first year's remissions of taxation were sensible and advantageous; and, when increased taxation became necessary, the burden was wisely placed almost altogether on direct taxation.* It was satisfactory that increased efforts should have been made for the fixed annual redemption of the debt, and the institution of a Sinking Fund was a valuable act.

But this is we fear all that can be said in praise of the financial proceedings of the six years from 1874 to 1880. The record, as shown by an analysis of the official figures given in our public returns, is distressing enough. The surplus of six millions, received in 1874, had by 1880 been turned into a deficiency of eight.† In the three last years heavy deficits were annually incurred.‡ The ordinary expenditure had risen and risen steadily, from 72½ millions in 1873, to an amount as originally estimated of 81½ millions for 1880, an increase of nine millions sterling. Deducting the debt charge of £26,700,000 in 1873, and £29,000,000 in 1880, and adjusting the "deficiencies," the increase in the optional expenditure‖ was from £45,170,000 in 1873, to £52,440,000 in 1880. The ordinary outlay on the Army (exclusive of purchase) was estimated at about 15½ millions against the 13¾ millions in 1873; that on the Navy at about 10½ millions against just under 10½. The Civil

* The total taxation remitted between 1874 and 1880 was 4½ millions, of which 2¼ millions was direct, 1¾ millions indirect, and half a million neutral taxation. The total amount imposed was 6 millions, of which 5½ was direct and half a million indirect. Thus indirect taxation was considerably relieved at the expense of direct, and resort was had ever more and more to the income tax.

† This vanished surplus of six millions played a prominent part in Liberal speeches at the election of 1880; and it is said that a well-known radical orator produced a thrilling effect by demanding of an audience of enthusiastic economists, "Now, 'ow 'as this six millions been eat up?"

‡ In the fifteen years between 1862 and 1876 (inclusive) there were surpluses in every year except two.

‖ Exclusive of the Indian charge.

Administration just over 17 millions against 12¾.* The cost of collection had scarcely varied. The annual outlay on the Post Office and Telegraph Service had increased from £4,830,000 in 1873, to £5,340,000 in 1880. But this (as Sir J. Lubbock has said) "is not expenditure in the true sense of the word, but rather the enlarged turn-over of an immense and extending business," † which, if economically managed, is a cause not for regret but for congratulation. Deducting this increase on the business departments, and taking into account the increase in the local subsidies which had risen from £2,800,000 in 1873 to no less than five millions in 1880, and the increase in the Education Grant from two millions in 1873 to £3,700,000 in 1880,‡ the difference in the optional expenditure of 1873 and that of 1880 was reduced to about two millions and three quarters—a sum, that may perhaps be taken as the real measure of the increased expenditure in the six years, due to preventible causes.

The burden of taxation in the six years had been increased on balance by about £1,600,000 a year. The floating debt had been increased from £4,500,000 to £27,300,000 ; || the balances had been diminished from £7,440,000 to £2,273,000.** And, in spite

* The estimated charge of the first (Northcote) Budget of 1880 is taken for comparison, and experience would go to show that the expenditure would probably have rather exceeded than fallen short of this estimate if the Government had remained in office.

† *Liberal and Conservative Finance* (1884), p. 5.

‡ Annual Return of Public Expenditure, Charges on Taxes. See *Appendix F.*

|| The Unfunded Debt consists of Exchequer Bonds, Exchequer Bills, and Treasury Bills, the latter running for three or six months at various rates of interest. Exchequer Bonds are issued for longer terms—a year, two years, or more. The Exchequer Bonds and Bills, when first introduced, were used simply as instruments of credit issued in anticipation of the revenues granted by Parliament. This use has now almost entirely ceased (*II. 43*), and they have now practically speaking no connection with the supplies of the year. They are issued to meet the liabilities incurred for loans to local bodies, for such purposes as the purchase of Suez Canal shares, or, where a deficiency is not intended to be immediately met. Borrowing on Bonds or Bills may be an economical or it may be an expensive form of amusement. The interest at which they can be issued depends very much on the state of the money market. At one time it may be possible to issue them at a very low rate of interest, lower than that at which debt could be funded ; at another, in consequence of the stringency of the money market, they can only be issued at a comparative loss. For instance, while in 1852 at one moment the "Supply Bills" bore an interest at the rate of only 1½ per cent. per annum, in 1878 some Treasury Bills had to be issued actually bearing interest at the rate of 4½ per cent. The "Supply Exchequer Bonds," issued in 1878, bore, the greater part of them, interest at the rate of 3½ per cent., while those issued in 1879 were floated at 2½ per cent.

** Exclusive of a million advanced by the Bank in aid of ways and means. A reduction in the balances is of course equivalent to an increase of liabilities—that is to say, the assets of the country are the less—and *vice versâ*.

of the increase in the annual debt charge, but £19,300,000 of debt had in six years been redeemed by or at the average rate of only $3\frac{1}{4}$ millions a year;* or, taking into account the $12\frac{1}{4}$ millions of war liabilities, at the rate of $5\frac{1}{4}$ millions a year.

* See Debt Table, *Appendix D.*

# CHAPTER XXXIV.

## GLADSTONE REDUX.

### 1880—82.

In forming his Government, Mr. Gladstone had again taken on himself the triple duties of First Lord of the Treasury, Leader of the House of Commons, and Chancellor of the Exchequer. Such a combination of offices may have been justifiable and practicable in old days, when the work was far lighter, and the hours shorter; when the anxieties and responsibilities were not nearly so heavy, and the public intelligence and curiosity far less awakened; but, nowadays, with an extended Empire, and in the increasing blaze of publicity, it should not and cannot satisfactorily be undertaken by any one man, be he ever so able and so active.* Mr. Gladstone was obliged before long to acknowledge

* The office of Chancellor of the Exchequer dates from about the beginning of the thirteenth century. The Chancellor of the Exchequer was intended to act as a check upon the Treasurer. "If the Treasurer was in error, he was to rebuke him with modesty and to suggest what ought to be done; if the Treasurer persevered, the matter was to be argued before the Barons and left to their decision" (*P. I. and E.* ii. 335; Quotation from *The Dialogue on the Exchequer*). The office was amalgamated with that of Under Treasurer in the time of Henry VII., when the Chancellor of the Exchequer was made fully responsible for the public revenue.

From the days of Stanhope, in 1717, who for a time combined the offices of First Lord of the Treasury and Chancellor of the Exchequer, up to the time of Peel, in 1834, the two offices were always held together when the Prime Minister was in the Lower House. They were held by Walpole in 1721, by Pelham in 1744, by Grenville in 1763, by North in 1770, by Pitt in 1783, by Addington in 1801, by Pitt again in 1804, by Perceval in 1809, by Canning in 1827, by Peel in 1834. But between 1834 and 1873 the two offices of First Lord and Chancellor of the Exchequer were kept distinct.

When Perceval was offered the Chancellorship of the Exchequer in 1807, the salary was only £1,323 a year and a house, while that of a Secretary of State was £6,000 a year. He offered to take the office with the addition of the Duchy of Lancaster for life. To this the House objected, and he became Chancellor of the Duchy "during pleasure" and Chancellor of the Exchequer (Walpole's *Life of Perceval*, i. 242). In 1809, when Perceval became Prime Minister, the Chancellorship of the Exchequer went a-begging. It was unsuccessfully offered to Vansittart; then to Palmerston, "a young member" of only 25, and "quite without knowledge of

that he was unable to give the necessary time and attention to the detail of the work to which it is the duty, and should be the business, of the Chancellor of the Exchequer to devote himself. In 1883 he relinquished a portion of his herculean task, and resigned the office of Chancellor of the Exchequer to Mr. Childers, thus placing it in hands worthy of the charge, in those of a painstaking and laborious colleague, and one possessing a very considerable knowledge of finance.

But, in 1880, in this the first financial year, at least, his eye was not dimmed, nor his natural force abated by over-pressure of other duties. The master hand was visible in the work, the master mind in its exposition. The financial strength required to meet emergencies, and the courage to impose the necessary taxation, which had been so woefully lacking of late, were again apparent.

The old Parliament was dissolved at the end of March, and the new one began business near the end of May. Though the Budget proposals of Sir S. Northcote had been accepted by the late House and carried into effect, another Budget was now introduced by Mr. Gladstone.* The very small surplus of under £200,000 which had been carried over from the March Budget, had been already more than swallowed up by supplementary estimates, and, meanwhile, further liabilities had arisen. The cost of the Afghan war had swelled to such enormous proportions that it was clear that England, in some way or other, would have to come to the pecuniary relief of India. The evacuation of the country, and the end of the expense, seemed still so far distant, that it was thought premature, as yet, finally to decide the

finance;" then to Robert Milnes, "a young man of very great promise;" then to George Rose, "the weakest of speakers;" then to Charles Long, and for the fifth time refused; and Perceval eventually had to take it himself. (See *Life of Perceval*, ii. 47; Bulwer, *Life of Palmerston*, i. 91.) Canning, in 1827, wished to keep the Foreign Office by combining it with the Premiership, instead of being First Lord of the Treasury; but he found that there were official attributes attached to the office of First Lord of the Treasury which made it necessary that the Prime Minister should be First Lord. He wished, however, to have a separate Chancellorship, to relieve himself both in the Treasury and at the House of Commons, by handing over the Chancellorship of the Exchequer to Palmerston; but difficulties supervened, and eventually he found he must keep the office himself. (Bulwer, i. p. 375.)

The duties of Junior Lords of the Treasury are not financial; they are simply, as Canning said, "to make a House, keep a House, and to cheer the Minister."

* Budget Speech, *H.*, June 10, 1880.

question of how much and in what form England should contribute to the war-charge; but it was very desirable that, with a liability like this looming large, a considerable sum of money should be in hand. The negotiations for the renewal of the French Commercial Treaty had been revived, and, if successful, a loss of revenue on the wine duties of some £230,000 to £240,000 would be entailed; a necessity that, as we have seen, did not unfortunately arise.*

The disappearance of the surplus, the probable grant to India, and the expected loss on the wine duties, rendered it advisable to reconsider the financial position, with a view to the provision of a surplus; and, as a second Budget was thus rendered necessary, the Chancellor of the Exchequer took advantage of the opportunity to carry through a very considerable fiscal operation —the commutation of the malt duty into a beer tax.

With the question of the commutation of the malt tax, "the largest change that has ever been attempted or completed" by the Inland Revenue Department,† we must deal at some length. The original tax on beer ‡ was imposed in 1660, and was extended to malt in 1697, when about half the burden fell on each. The beer duty was at first extended to private brewing by means of a composition; but this form of taxation was before long repealed, and the whole duty practically fell on beer brewed for sale alone. As the duty increased, private brewing was more and more resorted to, and gradually, by that means, the better-to-do classes, who alone could afford to brew, almost completely escaped the tax. The inequality of the incidence of the tax consequently became so great, that, in 1830, the beer duty was repealed, under the administration of the Duke of Wellington, who, unmindful of ethnical peculiarities, filled part of the void by an additional duty

* See *I. 239*. The proposal of the English Government, if all had gone well, would have been to reduce the duty on wine from 1*s.* to 6*d.* a gallon.

† Report I. R. Coms., 1884, p. 18 (C. 4474, 1884). Mr. Gladstone, in his Budget Speech of 1881 (*H.*, April 4, 1881), spoke of the commutation as "the most important single financial change which I have ever been concerned in recommending to the House."

‡ For this, see Reports of I. R. Coms., especially those of 1857, 1870, 1884, as well as their Annual Reports; Evidence given before Select Committee of 1863 (no Report), Report of Select Committee of 1867 (*P. P.* 420 of 1868), Dowell, iv., Porter, pp. 70, 563, 572, &c.; Adam Smith; Tayler; Peto; Noble; *The Queen's Taxes;* McCulloch's *Com. Dic.*, and *Ency. Brit.*, "Beer," "Brewing," "Malt," &c.; *Hansard*, Debates on the "Malt Duty"—very frequent.

on spirits. Fiscally the repeal was a mistake, for the loss of the three millions of revenue greatly hampered future fiscal reforms; financially it was also a failure, the malt-tax alone being little more productive than before.

Socially, too, it was an evil, combined as it was with the passing of the "Beer-house Act," it produced for three or four years, until the Beer-house Act was altered, "free trade in beer." "The new beer bill," wrote Sydney Smith in 1830,* "has begun its operations. Everybody is drunk. Those who are not singing are sprawling. The sovereign people are in a beastly state."

The beer tax, as first imposed in 1660, was at the rate of 2*s.* 6*d.* a barrel on "strong," and 6*d.* on "small" beer,—"strong" beer being of the value of 6*s.* a barrel, "small" below that value.† "Ale" was sweet beer and but slightly intoxicating. Our ancestors of earlier days perforce drank their liquors—wine as well as "ale,"—sweet and light. But the introduction from Flanders of the hop, about the beginning of the sixteenth century,‡ turned sweet into bitter, muddy into clear. The new beverage, "beer," was gradually brewed stronger and stronger,‖ and the English people, combining their bitter beer with increasing amounts of heavier wines and headier spirits, became correspondingly more and more drunken; ** until improving morals, and the introduction of tea,

* *Life and Correspondence*, p. 203 (privately printed).

† The limit of value of "strong beer" was gradually raised, and in 1802 it was fixed at 16*s.*, and only "strong" and "small" (including "table") beers were allowed to be brewed in England.

‡ According to the old Suffolk proverb—

"Hops, Reformation, baize and beer,
Came into England all in a year."

Supp. to Forby's *Vocabulary of East Anglia.*

Dowell has it "Carp and beer"; and Izaak Walton, quoting from Sir R. Baker's Chronicle—

"Hops and turkies, carps and beer."

‖ A new brewers' liquor, invented in 1722, "gradually became a favourite beverage with labouring people, particularly the London porters, and was therefore termed 'porter.'" (Dowell, iv., pp. 67 and 123.) In a curious book called *The Beer of the Bible*, by James Death (1886), "beer" is traced back to, and identified (to the satisfaction of the author) with the "leaven" of the Hebrews. McCulloch also traces "ale" back to the time of the Egyptians. In England it was about the earliest of intoxicating drinks, and has always maintained its position as the national beverage.

** Speaking of the time of Charles II., Macaulay says: "As the habit of drinking to excess was general in the class to which he belonged, and as his fortune of the county gentleman did not enable him to intoxicate the large assemblies (who gathered round his board) daily with claret or canary, strong beer was the ordinary beverage. The quantity of beer consumed in those days was indeed enormous. For beer wa

coffee and light wines, drove out beer, first from the morning and then from other meals, and brought about a change for the better.

By 1793 the tax on strong beer had risen to 8*s.*, and was further raised to 10*s.* in 1804, and subsequently reduced to 9*s.*, at which rate it stood at the time of its repeal in 1830.* It was then producing rather over three millions a year, the malt tax at the same time four and a quarter millions, and the hop duty, on the average, about a quarter of a million.

The malt duty was first fixed at 6*d.* a bushel.† By 1780 the duty had risen to 1*s.* 4¼*d.* a bushel, and during the war it was raised to 4*s.* 5¾*d.* In 1816, part of the war duty (to an amount of about two millions and a quarter) was remitted, along with the repeal of the income tax. But in 1819 ‡ lack of funds compelled an increase in the duty from 2*s.* 5*d.* to 3*s.* 7½*d.*, a rate which in 1822 was reduced to 2*s.* 7*d.* In 1827 the duties were equalized throughout the three kingdoms, and the laws were simplified and consolidated. To the uniform duty was added, in 1840, the five per cent. levy on the Excise Duties, raising the total burden to 2*s.* 8½*d.* From 1854 to 1856 the duty was temporarily raised to 4*s.*, for the purposes of the Crimean war; but after peace was made, it reverted to the old 2*s.* 8½*d.*, at which amount it stood until its repeal. Of late years much had been done to relieve traders from trouble, expense, or vexatious interference.

The question of the abolition, reduction, or commutation of the malt tax, was no new thing. It had been, both inside and outside the House, a most fruitful theme of fiscal discussion. In 1821 ‖ the Government of Lord Liverpool were defeated on a motion for the repeal of the malt tax; but were afterwards successful in

then, to the middle and lower classes, not only all that beer now is, but all that wine, tea, and ardent spirits now are. It was only at great houses, or on great occasions, that foreign drink was placed on the board" (i., Chap. iii., p. 332). In the good old days of 1722 (C. 4474, 1884, p. 20), no less than 33,000,000 bushels of malt were charged with duty. In 1879 the amount was no more than 51,500,000.

* In 1774 the total produce of all the taxes on beer—beer, malt, and hops—was nearly 2½ millions. By 1815 these taxes yielded 9½ millions.

† The duty was extended to Scotland in 1713, and to Ireland in 1785, in each case at a lesser proportional rate than England. (See C. 821, 1870). "The term malt is applied to designate grain which, being steeped in water, is made to germinate to a certain extent, after which the process is checked by the application of heat. This evolves the saccharine principle of the grain, which is the essence of malt."—McCulloch, *Com. Dict.*

‡ See *I.* 14.

‖ *H.*, March 21, 1821.

reversing the vote. In 1833 the Government of Lord Grey was defeated by a majority of ten on a motion proposing immediately to halve the malt tax. A few days afterwards a further motion was made for the repeal of the house and window taxes; and Althorp managed to defeat that motion, as well as partially to rescind the previous vote, by the threat of the imposition of a property tax.* Again, in 1835, Peel, in opposing a motion for the abolition of the malt tax, warned the House against exchanging the lax pressure of a malt tax for the scourge of a property tax. Malt has always been looked upon as an "agricultural interest," and one feature of Mr. Disraeli's Compensation Budget of 1852 was his proposal to reduce by one half the malt tax, then producing over five millions a year. "Since the repeal of the Corn Laws," he argued, "the question of the malt tax has assumed a totally different aspect;" "unrestricted industry" was now the want of the day, and the malt tax was a restrictive tax.† In 1863, and again in 1867,‡ Select Committees on the subject of the repeal of the malt tax had been appointed. The curtailment of the "malt credits" had been a marked feature in the Budgets of 1859 and 1860.‖

The perennial motions made in the House on the subject of the malt tax had been nearly always aimed at partial remission or total abolition; of commutation little was said. But to make an economical and effective reduction on the malt duty**—that is to say, one which would find its way into the pocket of the consumer—would necessitate a remission of at least half the tax, and this would involve a loss of revenue of from three and a half to four millions sterling. Nor was this all; relief on beer

* *H.*, April 26th and April 30th, 1833. The amendment ran as follows: "That the deficiency of the revenue which would be occasioned by a reduction of the tax on malt to 10*s.* a quarter, and by the repeal of the tax on houses and windows, could only be supplied by the substitution of a general tax on property, and would occasion an extensive change in our whole financial system, which would at present be inexpedient."

† *H.*, Dec. 3, 1852. Twenty years before, in 1834, when for the third time standing for High Wycombe, Mr. Disraeli had declared strongly for the repeal of the malt tax.

‡ The former did not report, the latter reported in 1868.

‖ See *I. 186.*

** Mr. Gladstone showed in 1865 (Budget Speech) that in order to give a farthing a quart reduction in the price of beer, the malt duty would have to be reduced from 2*s.* 8½*d.* to 1*s.* 2*d.* a bushel. Mr. Disraeli consistently argued that if relief were to be given at all, it must be, as he said in 1864, "dealt with in a large manner."

would necessarily imply also relief on spirits. To reduce or repeal the malt tax, without substituting an equivalent, or without similarly and simultaneously reducing the spirit duties, would be "egregiously and grossly partial"* to England, as against Ireland and Scotland. Beer, "this excellent and truly national beverage," as Mr. Gladstone called it on one occasion,† was the beverage of England, but spirits were the national beverage of the sister kingdoms. Some fifteen years before, and the proportions in 1880 were still much the same, Mr. Gladstone had calculated that England paid towards the malt duty some £5,722,000, Ireland £300,000, and Scotland but £263,000.‡ Moreover, while beer was only taxed at from 12 to 20 per cent. of its value, ardent spirits were taxed at the rate of between 300 to 400 per cent. of theirs, and the competing wines at the rate of about 50 per cent.‖ To reduce the beer duty, and not simultaneously to lower the spirit duty, would thus be unjust as between the intoxicants, and unfair as between the three kingdoms.

Neither was it likely that the revenue relinquished by the reduction of the malt tax, would be recovered. Taxation on

* Mr. Gladstone.—Budget Speech, 1864.

† Budget Speech, 1865.—On another occasion Mr. Gladstone, with appreciative enthusiasm, spoke of the "Burton brewers, to whom we are all indebted for providing us with one of the best drinks which has ever been produced since nectar went out of fashion." (Budget Speech of 1881.) Burton fame is of no modern growth; and it is related that when the imprisoned Queen of Scots, wanting her pint, enquired of the Governor of Tilbury Castle where beer might best be had, his reply was, "at Burton, three miles off." The German traveller, Moritz, notes in his diary of a hundred years ago, "Reached Burton, where the famous Burton ale is brewed." "The strong ale of England did not," he adds, "at all agree with me." (*Travels in England*, 1782 p. 140.)

‡ According to an estimate of Mr. Gladstone in 1864 (Budget, *H.*, April 7), the total amount of taxation per head paid for malt and spirits, in England, was 10*s.*; in Ireland, a much poorer country, the same, and in Scotland 22*s.*; not due so much to greater consumption of intoxicants, but due to the consumption of a more heavily taxed article.

‖ It is not very easy to arrive at correct figures in this matter. The above are the figures as given by Mr. Gladstone in a speech in 1864 (*H.*, April 14). In 1861 (Budget, *H.*, April 15), he had stated that on the alcohol contained in spirits a duty of 10*s.* to 10*s.* 6*d.* per gallon was paid, on that contained in wine 6*s.* to 7*s.*, on that contained in beer 1*s.* 10*d.* only; that the tax on beer was about 18 to 23 per cent. of the value, on the competing wine from 25 to 80 per cent., on spirits about 400 per cent. In 1864 (*H.*, April 14) Mr. Milner Gibson, as representing the Government, estimated that the average duty on the retail price of coffee was 33 per cent.; on tea (the duty then being at a shilling) 83 per cent.; on sugar about 60 per cent.; on French wine 22 per cent.; on Peninsular wine 30 per cent.; and on beer only 12½ per cent. He did not give the burden on spirits. The Commiss. of I. R. in their report of 1870, p. 22 (C. 82) calculate the duty on spirits at "five or six times as much as is imposed upon beer, and twelve times as much as on tea (at 6*d.*)."

malt or beer was curiously different from taxation on other articles of general consumption. It had taken the revenue over forty years to recover from the loss occasioned by the repeal of the beer tax; * while the very increase in consumption of beer, if it took place, might be even more fatal to the revenue than actual diminution; for increased consumption would to a large extent be merely in substitution of spirits, and at the expense of the spirit duty. Beer, especially after the reduction, would be taxed very lightly indeed, as compared to spirits, and every transference of consumption from the more profitable spirits to the less profitable beer, would involve a distinct and heavy loss to the Treasury.†

The malt tax was no doubt injurious to the producer, costly to the consumer, and vexatious to the manufacturer.‡ A heavy sum—21*s.* 8*d.* per quarter—had to be paid by the maltster, at the initial, instead of at the last, stage of manufacture. This capital, the maltster, the brewer, and the publican, had each to advance, and the accumulated interest and profit had to be recovered in the retail price of the article, from the consumer, who consequently paid in the price considerably more than the State received in the shape of revenue.‖ The nature of the tax was

* In 1829, the last year of the beer duty, the joint produce of the two taxes was £7,286,000, and it was not until 1873 that this sum was exceeded. If the malt tax be now reduced by half, said Mr. Gladstone in 1864 (*H.*, April 7), "you may tell your little children now growing up that the longest lived among them may witness a recovery of the duty to its present figure; but pray give up the idea of ever seeing it yourselves within the term of your natural lives." As against this, may be set the opinion of the Select Committee of 1867–8 in their Report. "These statements lead your Committee to the conclusion that a reduction in the rate of duty would lead to a large increase in the consumption of malt" (p. iv.).

† Mr. Gladstone explained in 1865, that if the malt duty were reduced from 2*s.* 8½*d.* to 1*s.* 2*d.* a bushel, it would take £8 laid out in beer to bring as much into the Exchequer as £1 laid out in spirits; and if £2 worth of spirits were displaced by the additional consumption of £8 of beer, the Exchequer would positively lose £1 for each additional £8 added to the consumption of beer. (Budget Speech, *H.*, April 27, 1865.)

‡ The excise restrictions in connection with malting were formerly so manifold that the acts of George IV. contained no fewer than 83 clauses, and the regulations were enforced by no less than 106 penalties, aggregating £13,500. (McCulloch.) "The revenue from malt" (said, however, the self-satisfied Commiss. of I. R. in their first Report for 1857) "is at present collected without much fraud or evasion. There are, indeed, no complaints from the traders, who are generally not backward in alleging remissness in the Revenue Officers where there is the slightest pretext for the accusation." See their opinion as to paper (*I. 264, n.*) and hops (*I. 289, n.*).

‖ Here again it is very difficult to arrive at the true additional cost to the consumer caused by charging the tax on the raw material instead of on the finished article. The Committee of 1867–8 stated that in their opinion the tax "compelled the maltster to use more capital in his trade, by at least 50 per cent., than would be otherwise required." By some competent persons the additional cost has been estimated at under 20 per cent., by others at three times the whole amount of the tax.

such that it was necessary for the State to interfere with the form of the buildings, and with the time and mode of manufacture. The tax was one on the raw material: practically a tax on the barley. Its incidence was such as to combine undue restriction with undue preference. It tended to discourage the growth of a particular crop, and that a peculiarly remunerative one.* If, in spite of all, the particular article were grown, and happened to be good of its kind, it received protection or at least preference; for, with the exception of sugar, barley alone, and practically good barley only, could be used for malting. The tax thus discriminated between crop and crop, soil and soil, and vexatiously interfered with free cultivation generally.†

A mere reduction of the duty would in no way remove or indeed diminish the mischievous nature of the malt tax, merely rendering it less productive. But abolition would entail a loss of some seven and a half millions, and it was impossible for any Chancellor of the Exchequer to spare such a sum; even if the question of the spirit duty could have been put aside, and if public opinion had been in favour of a reduction of taxation on intoxicants, which was certainly not the case.

Reduction and abolition being thus out of the question, commutation, the transference of the tax from the malt to the beer, remained the only feasible project. The question had been looked into by more than one Chancellor of the Exchequer, by Mr. Gladstone himself, by Mr. Lowe, and by Sir Stafford Northcote; but the great obstacle in the way of commutation in the past, had been the difficulty of assessing and collecting a tax on the beer itself. The case of the hop duty in 1862, though forming a precedent for commutation, gave no light nor leading towards

* "Of all corn crops the barley is the most friendly to the farmer. It is the shortest time in the ground, the least exhaustive of the soil, is sown at the best season for cleaning and cultivating it, while it forms the best preparation for grass, and is the most suitable to follow green crops." Professor Caird (*H.*, June 15, 1865.)

† "The effect of the malt tax," said the Committee of 1867—8, was to interfere with the "due rotation of crops, by causing wheat to be sown where barley would otherwise be sown; that it caused inferior barley to be neglected for malting purposes, though it was well known that such barley would make good malt;" and in addition it caused the labourers to "consume an unwholesome kind of beer;" while it was injurious to the agriculturalist, by "preventing barley being sprouted for the feeding of horses and cattle" (p. iv.).

that of the malt tax; for that commutation had been carried out by the simple process of an addition to an existing licence duty calculated on the number of barrels brewed.* This principle was altogether inapplicable to the present case. Inspection and testing would be as essential in the case of a beer tax as in the case of the malt tax; the only difference being that the inspection would have to take place during the process of brewing, instead of during that of malting. And here was the difficulty. The number of "brewers for sale" was far greater than the number of maltsters, while the question was further complicated by the existence of many thousands of private brewers, "brewers for use."

Circumstances had, however, in these particulars, of late considerably changed for the better—from the fiscal point of view. The repeal of the beer tax in 1830 had largely increased the number of small "brewers for sale." In 1825 they numbered 26,200; by 1838 the number had nearly doubled. Gradually, increased facilities of communication, and the greater economy attendant on wholesale production, tended to concentrate the business into the hands of a smaller number of brewers, and private breweries were almost annihilated.† In 1853 the total number of "brewers for sale" was 45,000, and the number of maltsters 10,000. But in 1879 the numbers were respectively 22,000 and 8,000‡, and the diminished disproportion of numbers between maltsters and brewers had greatly diminished the difficulties in the way of transfering the duty from the former to the latter.

The commutation of the tax would combine many advantages. The restrictive, vexatious and costly nature of the old tax would

* See *I. 290.*

† In 1862 these "private breweries" consumed over 2 million bushels of malt, and in 1874 they consumed only 200,000 bushels, not one half per cent. of the whole amount of malt consumed. After the commutation of the malt tax some 60,000 private brewers at once took out licences. But these, said Mr. Gladstone in 1881 (Budget, *H.*, April 4), "do not consume, as far as we are able to judge, one-hundredth part of the whole of the material applied to the production of beer in this country." The number rose to 95,000 in 1885, but in 1886, "owing to the exemption from beer licence duty to all occupiers of houses not exceeding the annual value of £8 granted by the Revenue Act of 1886," the number of licences issued to private brewers has fallen from over 95,000 to about 33,600 (*P. P.* 5154, p. 10).

‡ Since the change in the hop duty the number of "brewers for sale" had further decreased to 13,800.

disappear. Less interference would be necessary with the processes of manufacture, while the possibility of evasion would be minimised. The export trade in beer would, it was hoped, by the abolition of restrictions and the simplification of the drawbacks, be encouraged.*

The duty hitherto necessarily levied on sugar used in brewing would disappear. Under the differential duty, essential so long as the tax on malt remained, yeast had pined and languished; —"the woes of yeast," said the Chancellor of the Exchequer, "have never been made known to the House,"—and now both yeast and vinegar would be freed. Moreover, in connection with the commutation, the old system of brewers' licences (to which the commuted hop duty had been added in 1862), which had given rise to much complaint, was to disappear with the general beer tax.†

The plan of commutation, as finally carried out in 1880 and 1881, was as follows: brewers "for use," in houses under £10 valuation,‡ were to take out a four shilling licence, which covered all their liability; those in houses between £10 and £15 were to pay 9*s*. It was impossible practically to inspect all the tiny licensed private breweries. In these cases, the holders of the licence would have to return from time to time the amount of malt, sugar, &c., they had used, and on this return they were to be charged. There would be no inspection of manufacture, though there would be power of inspection where fraud or evasion was suspected. In the case of the public brewers,

* This hope has not yet been fulfilled. The total export has only increased by a few thousand barrels since 1879, and is less now than in 1858, a fact which throws considerable light on the brew of the "English beer" obtained abroad. No less than 27½ million barrels of beer were "retained for home consumption" in 1886, against about 19 millions in 1858, the exports being respectively 420,000 and 584,000 barrels.

† Up to 1847 only malt and hops were allowed to be used in brewing beer for sale. In that year, as an encouragement to our sugar-producing colonies, the use of sugar was also allowed. In 1862, when the hop duty was commuted, the restriction on the use of hop substitutes was repealed. Sugar first came prominently into use for brewing purposes in lieu of malt in 1866, the price of barley being then very high. An Excise duty, equivalent to that on malt, was imposed on sugar "used in brewing," when permission was given for its use. The duty disappeared with the abolition of the malt tax, and all restrictions on the use of materials to be used in brewing were swept away. In 1864 the Excise sugar duty only produced £64,500; in 1879, the last year before its repeal, it produced as much as £628,000.

‡ Subsequently reduced to houses between £8 and £10, those under £8 being freed altogether.

inspection during manufacture was necessary, in order to protect the revenue and fairly to assess the tax.* But the brewer (unlike the maltster previously) would have full liberty in his mode of building, in the choice of his materials, in the method and time of manufacture ; the duties of the Revenue officers would be confined to watching and testing.†

In assessing the actual terms of the commutation, the Chancellor of the Exchequer laid it down that it was not intended that the Exchequer should materially profit by the change, though such advantage as accrued was to be on the side of the revenue.‡ And while the Exchequer would gain something, the consumer as well as the producer would be relieved of an appreciable burden. Fiscally, the commutation was a wise and satisfactory measure. Financially, it has not been perfectly successful. It has indeed given to the Exchequer a steady and uniform revenue instead of fluctuating receipts. But, partly in consequence of an over-estimate of the yield, partly in consequence of the continued decline in the consumption of intoxicants, partly in consequence of considerable concessions which were subsequently granted to the brewers, the revenue has not quite come up to the original estimate.‖

* The number who took out licences in 1886 was 13,000, of these three paid a duty on the beer they brewed of over £250,000 each, one paying nearly £400,000.

† For those to whom brewing is a familiar art the explanation of the I. R. Commissrs. as to the mode in which the beer duty is charged may be of interest. "The beer duty is a tax of 6*s.* 3*d.* on 36 gallons of worts, the contents of an ordinary barrel of beer, of a specific gravity of 1,057 degrees, with an allowance of 6 per cent. for waste. The specific gravity of the worts, which depends chiefly on the sugar contained in them, is ascertained by the saccharometer.

"In order to check the quantities of worts produced it is assumed by law that 42 pounds weight of malt or corn of any description, or 28 pounds weight of sugar, is the equivalent of a bushel of malt ; and that every two bushels of malt, or their equivalent, produce 36 gallons of worts at a gravity of 1,057 degrees.

"In practice, however, the materials used are frequently found not to produce the exact quantity of worts expected from them. They may produce either more or less. If they produce more, the tax is naturally levied on the actual amount of the worts. If they produce less, the charge is based on the estimated produce, and, after an allowance of 4 per cent. for possible loss, the duty is charged accordingly. There may, of course, be circumstances of an exceptional character which entitle the brewer to consideration, and in such cases the Board have power to grant him just relief."—(C. 4474, 1884, p. 18.) See also Dowell, iv. 140.

‡ The estimate of the average burden on each quarter of malt was as follows:—Malt duty, 21*s.* 8½*d.* ; brewer's licence, 1*s.* ; Excise restrictions on home as against foreign malt, 1*s.* ; total, 23*s.* 8½*d.* ; to which had to be added the maltster's interest and profit on the duty which he had to advance, 10*d.* The total amount of relief per quarter was therefore 24*s.* 6½*d.*, or per barrel (4 barrels=1 quarter), 6*s.* 1½*d.* The duty was fixed at 6*s.* 3*d.* a barrel, but 4 per cent. of waste was to be allowed, and the actual burden was finally reduced to about 5*s.* 10½*d.* per barrel, the whole of which the Exchequer would receive, gaining about 5*s.* 8*d.* a barrel under the old malt tax.

‖ "When Mr. Gladstone first laid his proposals before Parliament he estimated

The average produce of the malt tax, brewers' licences, duty on sugar used in brewing—in a word, of the equivalent for the beer tax—during the nine years preceding the commutation, was £8,432,000.* The total original estimate of the beer tax was about £8,800,000. The yield in the first complete year, 1881–2, was £8,530,000, a loss of some £270,000. Since that time the yield has been almost stationary, and in 1886 it was £8,500,000.

It was expected that in future years the change would be pecuniarily beneficial to the Exchequer; but, in 1880, the year in which the change took place, a considerable sum of money was required in order to meet the charge for malt drawback. The maltsters had already paid a portion of the duty on their unsold stocks of malt, and it would be necessary, of course, to re-imburse this duty, in order subsequently to charge it on the beer. The current year, it so happened, was a favourable one for the commutation, inasmuch as the malting season had been one of the worst known; the stocks of malt in hand being consequently peculiarly low, and the duty already paid small in amount, the necessary re-imbursement was, said the Chancellor of the Exchequer, "very considerably lower than would have had to be made in any other year." But, even in this somewhat exceptional year, the repayment of duty, in the form of drawbacks on all stocks in hand on the 30th September, together with certain other repayments incidental to the commutation, could not be put at less

the permanent benefit to the revenue at £300,000 a year, but he did this intending to fix the standard of the specific gravity of the worts at 1,055 instead of 1,057 degrees.

"The brewers argued so strongly that the revenue would gain more than was expected if this standard were adopted that Mr. Gladstone subsequently gave way and raised it to 1,057 in accordance with their wishes. We believe that Mr. Gladstone was quite correct in his original calculation. We reckon somewhat roughly that each degree is worth £150,000 per annum, and that the concession of two degrees to the brewers was a concession of the £300,000 which it was at first anticipated that the revenue would gain. Our conclusion is, therefore, that the beer duty is no more than exactly equivalent to the taxes for which it has been substituted."—Report, I. L. R. Coms. 1885, p. 19.

* These figures have been kindly furnished to me by the Treasury. The yield in 1879 was only £7,725,000, but that was an exceptional year, the barley harvest being late and very deficient. The highest figure reached in any of the nine previous years was £8,950,000 in 1875. I take the nine previous years as representing the produce of the tax after the great rise which took place in the yield from malt in 1871. The net produce of the tax in 1870 was £7,228,000. The net yield in 1862 was £5,968,000. (See *Stat. Abst.* Reports of I. R. Commissrs., 1870, 1884, &c. *P. P.* 239, Sess. II. of 1880.)

than £1,100,000.* This necessary outlay was, however, not additional expenditure, but somewhat in the nature of an investment. The million odd, thus repaid to the maltsters, would, by enabling the commutation to be carried through, produce, it was expected, a considerable annual revenue. One million one hundred thousand pounds was to be, as it were, expended on an operation, that was expected ultimately to yield an additional £300,000 of revenue—not a bad investment for the community, though it is doubtful whether the income tax payers (who had to bear the incidental burden) quite appreciated all the benefits to be derived from the scheme.

The deficit on 1880 caused by these various alterations was met in two ways. A penny of income tax was imposed, and, as a quarter of the year had already elapsed, the precedent of 1859 was adopted, and a twopenny income tax was charged "upon one half year of demand." The licence duties for the sale of retail alcoholic liquor—publicans' licences in short—were altered, readjusted, and increased. At the same time the Spirit Acts, in regard to distilleries and in regard to the warehousing of spirits, were amended in the direction of more accurate supervision combined with greater freedom to the trader.

The proposal to increase the scale of the licence duties was founded on the recommendation which had lately appeared in the Report of the Lords' Committee on Intemperance; † and was defended also on the ground of the greater consumption of intoxicants that would follow on the cheapening of beer and wine, by the commutation of the malt tax, and from the reduction of the wine duty.

The new scale of licences was to be uniform throughout the United Kingdom. The duty for the retail sale of spirits was

* The amount that had actually to be paid came to £1,330,000.

† "It has been already stated that one effect of the changes made by the Act of 187 in the manner of granting such licences has been practically to prevent the increase of their number, while the operation of the Act of 1869 had been considerably to decrease the number of beer-house licences. The effect of this legislation has been largely to raise the value of this property, and it would seem but just that the public should receive a greater portion than heretofore of the profits of a monopoly thus artificially created. Almost everywhere it appears that those premises, in respect of which the licences have been granted, whilst stationary in number, have increased in size and value. The Committee recommend that a considerable increase should be made in the duty on excise licences."—Report of Lords' Committee on Intemperance, 1879, p. 50 (*P. P.* (113) of 1878–9).

fixed at £4 10*s.* for houses under £10 valuation, rising gradually from £6 for those between £10 and £15, to £20 for those between £40 and £50 valuation. At that point a distinction was drawn between "public houses" and "premises structurally adapted for use as an inn or hotel for the reception of guests and travellers desirous of dwelling therein."* For these latter, the £20 duty would be the maximum rate. For the former, the rate continued to rise, up to £700 value or above, when the duty was to be £60.

The estimate of additional revenue to be derived from the change of scale was £305,000 for the current, and £350,000 for a whole year. The duties proved to be more profitable than had been expected, and produced some £430,000 a year, instead of only £350,000.† And, to this extent, the publicans seem to have some just ground for complaint, for undoubtedly they are being taxed more heavily than was originally intended; especially as the wine duties were not in the end lowered, and as it is questionable whether the commutation of the malt tax has done much or anything to cheapen the price of beer; while, in the meantime, from divers causes, the total consumption of intoxicating liquors has certainly considerably diminished. But publicans, like brewers, are, to the public mind, fair game for taxation, and it is not probable that they will obtain redress.

The upshot of all these changes was this. That the deficiency on the March Budget of £16,000, after including the £200,000 of supplementary estimates, was increased to about £1,350,000, in consequence of the loss on the wine duties (£233,000), and the necessary outlay on malt drawback (£1,100,000). Against this deficiency, taxation to an amount of £1,730,000 —income tax £1,425,000, licences £305,000—was to be imposed in the current year, with a further amount of £350,000 from the income tax, £45,000 from the new licences, and some £300,000 from the beer tax to be received in the following year. There was thus an immediate surplus of £385,000—expenditure, £82,275,000, revenue, £82,660,000—and in 1881 about £700,000 of additional revenue would be received, so that the Chancellor

* The simple beer licence (for consumption on the premises) was raised to £3 10*s.*; for wine the same; the joint licence £4.

† See *Statistical Abstract* (1887), Table 8, *Finance Accounts.* Return No. 251, Sess. II. of 1880. Also account of these duties in Report of Commissrs. of I. R., 1885.

of the Exchequer would be provided with considerable funds wherewith to meet the call which India was expected to make.

Before the end of the year, however, several changes had taken place in the estimates. The Transvaal expedition—soon to be, perforce, dignified with the title of "war"—cost some £620,000 (out of the Army and Navy votes), and though on other items there was a saving, the total expenditure exceeded the estimate of June by £335,000.* The malt drawback and other repayments had been under-estimated, and cost £1,330,000 instead of £1,100,000. At a cost of some £180,000 certain concessions had been made to the brewers in the mode of assessing the beer tax. Against these losses, £233,000 had been saved on the wine duty, in consequence of the postponement of the negociation for the renewal of the French Treaty. The general revenue proved once again elastic. It had been dwindling since 1875, but in 1880, in spite of another bad harvest,† it showed a very considerable increase,‡ so that in spite of the additional charges a surplus of £1,430,000 was realized.

The contribution from the English Treasury to the cost of the Afghan war had been meanwhile fixed at five millions sterling; and half a million of this grant-in-aid was to be paid in 1880; reducing the realised surplus to a little under a million—expenditure, £83,100,000; revenue, £84,040,000. The war expenditure met in the year amounted to £2,320,000, of which £620,000 was due to action taken in the year itself and the rest to legacies of liabilities.‖

* The Civil Service supplementary estimate included the cost—£9,800—of the prosecution of "The Traversers," Parnell and others, undertaken in the winter of 1880.

† There had been not only a bad harvest in England in the autumn of 1879, but a most disastrous one in Ireland, amounting almost to famine, the harvest having produced something like £10,000,000 less than the average of the years before. The late Government had made considerable advances to landlords for the improvement of their lands at very cheap rates of interest, with a view of giving employment; and power had been taken to authorise the Local Government Board to give authority to boards of guardians to distribute food or fuel by way of outdoor relief, and, when necessary, to borrow money to meet this exceptional outlay. About three-quarters of a million had been advanced by the late Government, and power was now taken to advance a further like amount. The money was taken from the "Church Surplus," and did not affect the national finance.

‡ In 1879 there had been a shrinkage of revenue of some £2,700,000 on the tax revenue; in 1880 there was an increase of £1,800,000.

‖ Namely, Transvaal, £620,000; Afghan war, £500,000; interest on Indian "loan," £60,000; and terminable annuities of 1880, £1,130,000.

There were two somewhat curious analogies between Mr. Gladstone's Budgets of 1860 and of 1880. In 1880, as in 1860, the question of a French Commercial Treaty necessitated the application of revenue derived from the wine duties for the purposes of commercial negociation. In 1853 Mr. Gladstone had proposed the abolition of the income tax; and, in 1860, the very year in which it was to disappear, he had re-imposed and increased it. In 1874 he had again proposed its abolition; and now, in 1880, on again acceding to office, his first action was to increase it. But it was a long cry to 1874. Much had happened since. The expenditure had risen, the revenue had lost its elasticity, and all hope of dispensing with the assistance of the income tax had, for the present at all events, vanished. And that being so, it was well that, as in 1860, the tax should be again utilised for fiscal purposes. "This," as Mr. Gladstone said, "was the original purpose and distinction of the tax. This is the great glory of the tax, that it has been the means of enabling us thoroughly to reform our commercial system, thoroughly to relieve the industries of the country, and to bring back into the Treasury of the community ten pound and twenty pound for every pound that has been levied in the form of income tax."

The Budget of 1881 was again presented by Mr. Gladstone.* The total estimate of expenditure was £84,700,000, against an actual expenditure of £83,100,000 for 1880. The war expenditure past or present was estimated at about half a million more than the similar charge which had been met in 1880,† leaving an increase of some £1,200,000 on the ordinary expenditure, chiefly on the Army ‡ and the Civil Service. The estimated revenue—taking the income tax at the 6*d.* to which it had been raised the previous year—was put at the enormous total of £86,000,000. ||

* *H.*, Budget Speech, April 4th, 1881.

† A sum of £1,184,000 was included in the ordinary estimates for the Transvaal:—Army £984,000, Navy £200,000.

‡ The Fortification and Barracks (Localisation) Loans came to an end in 1879; the remaining barrack expenditure of £300,000 was to be included in the ordinary estimates, at the rate of about £100,000 a year from 1881.

|| The tax revenue was to produce £72,100,000, against the £69,800,000 of 1880, a nominal increase of £2,300,000. But there had been paid in 1880 £1,330,000 of malt drawback—deducted from the revenue receipts before they were paid into the Exchequer; besides which some £500,000 of taxation imposed the previous year would be received in the current year.

The expectation of the peace and retrenchment that were to follow on the accession of a strong Liberal Government, had done something to give a temporary fillip to trade, by inspiring confidence—a confidence which soon disappeared when it was found that Liberal Ministers could be very much as other men were, at any rate in the matter of involving the country in "petty" wars abroad, and in increasing the expenditure at home. In 1881, the belief was still held that trade was again reviving; indeed, during the year, a considerable (though, unfortunately, but transient) commercial activity prevailed. The ship-building trade especially was preparing to meet the expected expansion of trade, and during 1881, 1882, and 1883, there was an enormous increase in the number of ships built.* But these sanguine hopes of revival were doomed to disappointment, and the result of the abnormal activity in ship-building was a vast over-production of shipping and a consequent enormous fall in freights and profits, tending rather to retard than to assist the expected improvement in trade.

The extra penny of income tax had only been "borrowed" for one year, and the surplus of £1,200,000 was of necessity devoted to its remission. In fact the penny of income tax ought scarcely to have been included in the estimate at all, considering the very exceptional and temporary reasons for which it had been demanded. But the remission of a penny would imply a loss on the year of nearly a million and a half, and a deficiency of two to three hundred thousand pounds would be left. Taking into account the fact that the estimates actually provided for the extinction of war debt to an amount of some three millions, many a Chancellor of the Exchequer would not have allowed this small deficit to come between him and his rest. But Mr. Gladstone's nature was different, and he demanded the means of creating "one of those small but reasonable surpluses without which the vicissitudes of the year cannot be encountered." By a small re-adjustment of the spirit duties,† £180,000 was to be produced,‡ and a further £390,000 was to be obtained by a

* The number of tons built in 1880 was 400,000; in 1881, 500,000; in 1882, 667,000; in 1883, 770,000; in 1884, 500,000; in 1885, 400,000; in 1886, 293,000.—*Stat. Abst.*, 1887, p. 147.

† Chiefly from the abolition of a slight difference which still existed in the Customs duties in favour of spirits coming from the Channel Islands as against foreign spirits.

‡ A small change was to be made also in the duty on "mum" or spruce,—a change

further re-adjustment of the probate and legacy duties, leaving the modest surplus of £300,000 to be carried forward.

The question of the "death" duties requires notice. In 1880 Sir S. Northcote had revised and simplified the scale of the probate duties, and now they, as well as the legacy duty on personal property, were further dealt with. The duties included under the graphic though grisly appellation of the "Death Duties"—namely, "Probate," "Account," "Legacy," and "Succession" duties—are each of them a direct charge on realized property, and are included under the head of "Stamps."* With the exception of the succession duty, of which we have already spoken at length,† they are all of them duties on "personalty," that is to say, on property other than land and houses.‡ The probate duty is levied on everything that the deceased possessed which is of any value, and is almost self-collecting, being paid out of the whole estate before division of the property, and before it reaches the "beneficial successors." The duty is an *ad valorem* one, proportioned to the gross amount of the property left by the deceased. Until the executor has paid

remarkable for this reason, that the Chancellor of the Exchequer himself did not know what "mum" was, and that his ignorance was shared by "the whole of the Revenue Department, none of whom can throw the smallest light upon the point." (*H.*, April 6, 1881 ) There is a receipt for "mum" in *Harl. Misc.*, i. 539, ed. 1808. From a correspondence which took place in the *Times* (Dec. 1886), it appears that "mum" was a "farinaceous liquor flavoured with herbs."

According to an old catch—

"'Tis yellow, and likewise
As bitter as gall,
And as strong as six horses,
Coach and all."

Pepys drank it at a "mum-house in Leadenhall," and Steele "at the House of Commons."—See Mr. Bickerdyke's letter, printed in *Times*, Dec. 24.

* See especially for the "death duties," Wallace's *Epitome of the "Death Duties"* (1886), officially prepared for the I. R. Department; Trevor's *Digest of Taxes on Successions* (4th ed., 1881), founded on an official memorandum drawn up in 1857, and published in the first Report of the I. R. Commrs. of that date (Appendix, p. xxii); McCulloch's *Treatise on Succession to Property Vacant by Death;* Introduction to *The Succession Duty Act of* 1853, (Sir) H. Thring, 1853; Archbold's *The Succession Duty Act of* 1853, 1854; Hanson's *The Acts relating to Public Legacy and Succession Duties*, 1870; Griffiths' *Digest of the Stamp Duties* (9th ed., 1886); *Hansard*, Budget Debates, 1796, 1853, 1871, 1880, 1881, &c. See also, among many other discussions on the subject, debates of May 24, 1878, and March 15, 1880, &c. Mr. Dowell gives an interesting account of the Death Duties, vols. ii. and iii.

† See *I. 117.*

‡ "Leaseholds" are considered as "personal" property for the probate, and "real" property for the legacy and succession duties. Personal property under marriage settlement is not subject to probate duty.

the duty and received his "Probate," any steps he may take in the administration of the estate are improper, and the property can be neither collected nor distributed.

The legacy duty is a charge additional to the probate duty, and is paid by the individual in respect of any property to which he may succeed, immediately on succession. The amount varies with the value of the bequest, as well as with the relationship of the legatee to the deceased. The duty is levied on the "marketable value" of the personal property, or converted real property, received by the legatee, and depends on the degree of consanguinity of the legatee to the deceased.

The "account duty," imposed in 1881, is a very small matter, and is merely intended to stop up some small holes through which, under the probate duty, revenue used to escape. The receipt for 1884 only amounted to £31,500.

The probate duty was first imposed in 1694,* at a fixed sum of 5*s.* only, on estates above £20, the charge being in respect of the parchment on which the probate was written. Increased to 10*s.* in 1698, it remained at that figure until 1779, when a scale of charge was introduced, which however only varied between 10*s.* as the lowest and 50*s.* (on estates of £300 and upwards) as the highest duty. Extended in 1774 to Ireland, and in 1804 to Scotland, the duty was gradually increased both in amount and in maximum of value, until the latter reached a million pounds, the new scale being finally fixed in 1815. During the next sixty-five years a few minor changes were made. In 1859, the limit of charge was extended so as to include the whole of any sum, however large — an extension that has caught and taxed the residue of several large properties which would otherwise have escaped.† In 1864, the exemption was extended to all estates under £100 of value.

The original legacy duty was imposed in 1780; but being charged not on the legacy itself, but merely on the receipt of the

* "Severall dutyes upon velum parchment and paper for four years towards carrying on the war against France," were granted to "theire Majesties" in that year. (Trevor, p. 2.)

† In 1887–8 two estates, each of upwards of £3,000,000, fell in, and each of which paid probate of over £90,000. There had been only three estates of £3,000,000 proved before during the twenty previous years. In addition, in 1887, an estate of £1,800,000 fell in. (See Budget speech, *H.*, March 26, 1888.)

discharge given by the successor, and the receipt not being legally compulsory, the duty was extensively evaded; and, in 1796, Pitt transferred the liability for the duty from the receipt to the property itself.

At first the nearest relations to the deceased—widows and lineal descendants and ancestors—were exempt; the duty applying only to brothers and sisters at the rate of two per cent., to uncles, aunts, and first cousins at three per cent., to other relations at four per cent., and to "strangers" at six per cent. Some of these rates were gradually increased, and in 1805 the lineal descendants and ancestors were also brought to charge at the rate of one per cent. At the same time the area of the tax was extended almost to the point originally planned by Pitt, ten years before, when he introduced his rejected Succession Duty Bill, and the duty was made to apply to legacies charged upon or taking effect out of the real estate (rent charges, annuities, jointures, &c.,) and to the proceeds of any sale of real estate, thus leaving the unencumbered remnant of the land or house property alone free of duty.*

In 1815 the rates of consanguinity were again revised, and—in spite of Mr. Lowe's attempt to alter them in 1871—at the scale then fixed they still remain. Widows or widowers were still exempted; lineal descendants or ancestors were charged one per cent. on the value of the legacy; brothers and sisters and their descendants, 3 per cent., uncles and aunts and their descendants 5 per cent., other relations 6 per cent.—in all these cases relationship by marriage is taken as equivalent for relationship by blood—"any other person 10 per cent."

"Man's a strange animal,"—especially when he is making his will; and, in consequence of the vagaries of testators, of the difficulty of distinguishing between the proportionate value of legacies to the different legatees, and the elaborated nature of many trusts, the legacy duty is by no means a simple one to collect.†

* See *I. 118*, Succession Duty. Thring says, that by the Act of 1805 real property was encroached upon "by placing legacies payable out of real estate, and the proceeds of real estate directed to be sold by will, on the same footing with respect to payment of duty as personal legacies" (p. 2). See also Trevor, p. 146.

† There are no less than sixteen different official provisions drawn up for the calculation of payment of the duty under distinct forms of "succession." "In a recent

The old scale of probate duties previous to 1880 had been an arbitrary one, rising by successive and irregular steps, weighing in proportion more hardly on smaller than on larger properties. From a duty of 10*s.* on testate estates of under £100 value, it rose to £15,000 on those of a million, with an additional £1,500 for every extra £100,000. The charge on intestate estates was one-third more than that on testate estates—a perfectly indefensible distinction established by Vansittart in 1815, and unsuccessfully attacked by Mr. Lowe in 1871. This distinction Sir S. Northcote had abolished, and for the old scale he had substituted another, on a fairer and simpler basis, redressing — and redressing to the advantage of the Exchequer—the inequality which had formerly existed at the two ends of the scale.

The scale was in 1881 still further simplified by Mr. Gladstone. Instead of a progressive scale, with "steps" of a thousand pounds, up to a hundred thousand pounds of value, the duty was adjusted so that on estates of above £1,000 it would amount to an exact three per cent. on the value.* On estates below £1,000 the steps were to rise by £50 only, and the duty was fixed at £1 per £50 up to £500, and at £1 5*s.* up to £1,000. Small pecuniary legacies under £20, which before escaped payment, were now subjected to the duty. In order to diminish the

case the tenant for life survived the testator for 60 years. When she died a legacy of £100,000 became divisible; every one of the original legatees was dead. They numbered 99, so that in the first instance every one of these estates had to be referred to; it was then found that several of their legatees were dead, and the destination of the legacy had again to be followed through the estate of every person who was interested in it."—Wallace (p. 14).

The Commissioners of Inland Revenue (1870), speaking of reversionary and contingent legacies, say that they are working off old arrears. "We may give as an example of this work the year 1814, which has been worked through. There were in the books of this year 242 open accounts; of these some have been cleared by payment of duty, others have been discharged as altogether irrecoverable; and the result is that there remain 21 cases and no more, which being still reversionary will require future operations. In all the other cases the executors or their representatives will be set free from the often repeated but fruitless applications with which they were being periodically disturbed under the old system, and it is hoped that all reasonable ground of complaint will be removed." See pp. 96-7 of their Report for an account of the mode in which the duty is collected.

* The duty (under the scale of 1880) was charged at, for instance, £190 on estates "between £7,000 and £8,000," and at £215 on those between £8,000 and £9,000. Thus the duty on an estate of £7,999 was only £180, and on one of £8,001 it was £215. Again, on estates between £350,000 and £400,000 the duty was £9,375, on those between £400,000 and £500,000 it was £11,250,—on an estate of £390,000 but £9,375 would be paid, while on one of £410,000 the sum of £11,250 would be paid. It was thus a matter of anxious moment to the heir under which group of values an estate would be sworn.

great trouble and expense of assessing and paying the probate and legacy duty on small estates, in cases where the property did not exceed £300 (without deduction of debts) the two were together commuted into a single and simple payment of 30*s.*,* and the necessity of "proof" was obviated. The probate duty was in future to be charged on the net, not on the gross estate—a proposal unsuccessfully made by Spring Rice when Chancellor of the Exchequer. Instead of duty being paid on the whole estate, and the excess duty afterwards returned on proof of debts, these were now to be first deducted.†

An alteration was also made in the legacy duty. The one per cent. duty on the nearest of kin—lineal descendants and ancestors—was practically in nearly every case paid by the same person who paid probate duty on the estate. In order to get rid of the double payment—paid by about seven-twelfths of the whole number of legatees—the legacy duty on lineals was abolished in cases where probate duty only had been paid; and the probate duty itself increased by about one-half per cent.‡ Estates coming under the rest of the "consanguinity scale" would continue to pay legacy duty as before. As legacy duty was paid on about half the amount of property subject to the probate duty, the commutation of the one per cent. legacy into one half per cent. probate duty would virtually produce an equivalent amount of revenue, while both the State and the "successor" would benefit from the increased facility of collection.

These changes, and those of 1880, were of considerable importance as simplifying and facilitating the collection of the probate and legacy duty; they constituted, however, but the fringe of questions, "the largest and most difficult still remaining to be effectually dealt with by Parliament." There yet remained the question of the exemption of property in mortmain. A great

* In addition to which is charged the (reduced) Probate Court fee of 15*s.* Mr. Gladstone stated that under the old system it was a very common thing for persons to pay £10, £20, or even £30 for expenses in connection with the settlement of such estates.

† Reasonable funeral expenses, not including the cost of "mourning and monument," were also allowed to be deducted from the value of the estate.

‡ The commutation applied only in cases where probate duty would be paid. Thus legacies derived from the proceeds of the sale of real estate, or a sum of money charged on real estate, and foreign property not liable to probate duty, are still charged with the 1 per cent. legacy duty.

anomaly still existed in the difference of amount in the succession duty imposed on real as compared to that on personal property.* There was further the "irrational" anomaly, that while unsettled personalty was subject to probate duty, that which passed by marriage settlement, or consisted of a sum of money charged on real property, was only liable to one duty—the succession or legacy duty. But, in 1881, Mr. Gladstone had not enough "elbow room" to enable him to present a complete plan. This was reserved for some future opportunity, an opportunity which, when it came, in 1885, proved disastrous to his Government.

The estimated result of the changes made in 1881, in the probate and legacy duties, was, on the one hand, an ultimate loss, after a period of several years, of some £720,000, and, on the other, a gain of £1,000,000,—a net gain to the Exchequer of

* See *Appendix M.*

The principle of the succession duty on real estate is taxation on the capitalised value of the years of enjoyment, in other words, on the life interest. That of the legacy duty is taxation on the saleable value. The succession duty on real estate is not due till twelve months after the commencement of "beneficial enjoyment," and it can be paid in instalments extending over four years; while if during the period of payment the successor (enjoying a life interest only) dies, the balance of the duty is remitted. The legacy duty is due and has to be paid on the receipt of the legacy, death in no way freeing the estate from liability. The difference in the burden between the legacy and succession duties is thus clearly explained by Mr. Wallace. "But in dealing with real estate, a singular exception from the general principle of the taxation of successions is made. This general principle is that, having ascertained the value of the 'succession,' whether it takes the shape of a legacy, or a share of residue, or an annuity, the duty is to be levied on such value, and the value in all cases of succession and legacies, except in the case of real and leasehold estate, is the marketable value, *i.e.*, what the subject is really or presumably worth. Thus a legacy of £1,000 consols pays the duty on the value of consols at the time when the legacy is satisfied; a bequest of pictures and furniture on the saleable value to be fixed by a competent person. But if the "succession" is to 100 acres of land, worth say £5,000, then, instead of levying the duty on the £5,000, the value of the succession is ascertained in this way: the annual value is stated and the outgoings therefrom, and the net income is found; then the age of the successor; and then recourse is had to the succession duty annuity tables, and the value of an annuity equal to the net income for the life of the successor is calculated, and on this value the tax is levied by eight half-yearly instalments." He goes on to say, "This arrangement is of course quite just when the successor is only entitled to a life interest in the property, but it seems to rest upon no sound principle when the succession is absolute. And it is decidedly disadvantageous to the revenue, for in the case supposed, of an absolute succession to 100 acres of land, worth to sell £5,000, say that the net annual value is £150, and the successor is 35 years of age, then the value on which the tax would be charged would only be £2,362, or less than half of the real value; and if the successor were older, the value would be much less still, and in no case could it exceed £2,890. The singularity of such a basis of taxation is made more apparent if we suppose that, instead of the acres being devised as land, the testator directs them to be sold and the money paid to his legatees; then the amount realised by the sale, being the real value of the 'succession,' would be charged with the duty" (pp. 20 and 21).

between two and three hundred thousand pounds, while the current year would benefit to the extent of nearly £400,000.*

In 1815, the total receipts from the probate duty were £500,000, from the legacy duty £730,000. In 1858 the amounts were respectively £1,340,000 and £1,650,000. In 1886, the probate duty amounted to four millions, derived from 44,300 estates of the total value of 140½ millions. The legacy duty amounted to about two millions and a half, charged on rather over a moiety of the property which had come under the probate duty. The total value of the succession duty in the same year was £840,000, charged on a property of the value of 44 millions.†

The gross revenue of 1881 amounted to £85,820,000. The total expenditure was £85,470,000, an increase of £670,000 over the estimates, due, almost entirely to increased expenditure in the Transvaal, the ordinary expenditure showing a slight saving. The total expenditure for the year on the Transvaal came to about £1,800,000.‡ Adding this to the £620,000 spent in the previous year, and to these the million and a quarter or so spent subsequently, in 1884 and 1885, in precautions against Boer encroachments, the total cost of the unlucky annexation and war mounts up to a sum of about three millions and a half or more. The total expenditure in 1881 of the nature of war expenditure, past or current, amounted to four millions,‖ the whole of which was met in the year, and a surplus of £350,000 left over.

One more Budget Mr. Gladstone presented to the House, that of 1882.** This, his thirteenth and last Budget,†† was introduced when all was as yet comparatively quiet in Egypt, and while

* The result of the changes as regards the year 1881 somewhat disappointed expectation. The disappointment was, however, partly due, according to the well-worn but somewhat ghastly joke which always does duty on these occasions, to "the extremely mild character of the season, in consequence of which (as the Chancellor of the Exchequer said) the grim monster Death had had but an indifferent harvest." (*H.*, April 24, 1882.) The "late" harvest (if we may call it so) was, however, fully garnered the following year.

† *P. P.* 317 of 1887.

‡ Of which £400,000, taken on August 19th, 1881, was for Civil expenditure.

‖ Transvaal, £1,800,000; "legacies," Afghan war, £600,000; "War in Europe" Annuities, £1,350,000; interest on Indian war, £115,000; Zulu war (balance), £135,000; in all £2,200,000. Total, £4,000,000.

** Budget Speech, *H.*, April 24th, 1882.

†† Mr. Gladstone's other twelve Budgets were those of 1853, 1854, 1859, 1860, 1861, 1862, 1863, 1864, 1865, 1866, 1880 and 1881.

England and France were still acting together in cordial co-operation, and was as uninteresting in the introductory statement, and as unenterprising in its proposals, as his first Budget, that of 1853, had been remarkable for interest and for boldness of conception. Of financial reforms and changes there were practically none. The estimated surplus was but £315,000—expenditure, £84,930,000, revenue, £85,745,000.* A proposal was made to increase the Carriage Tax, in order to meet an increased Highway Grant of a quarter of a million which the House had in the previous year forced on the Government.† But the Carriage Tax was dropped, and the Highway Grant was met from the surplus. The whole ultimate Budget remissions carried through amounted to but £4,500, and the total impositions to only £6,344; a balance of imposition of taxation of £1,844! "Only this and nothing more," and if happy the year which has no financial history, this would indeed have been a happy year—up to July.

In July a vote of credit for £2,300,000 was taken for the Egyptian Campaign; and Mr. Gladstone proposed to meet the cost by the imposition of a threepenny income tax on the second half of the year, equal to an additional penny half-penny for the whole year. An imposition that would produce in the year £2,262,000, which, with the existing surplus, would more than meet the extraordinary expenditure. This was Mr. Gladstone's last public act as Chancellor of the Exchequer.‡ Before Parliament met in 1883, finding the triple duties of Prime Minister, Leader of the House of Commons, and Chancellor of the Exchequer, too onerous for him, he resigned the Exchequer to Mr. Childers, then at the War Office.

We have already dealt so fully with Mr. Gladstone as a financier, that there is no need for repetition. Substantially, all the fiscal and financial proposals contained in, or outside his thirteen Budgets, were carried through. In three considerable matters only can he be said to have in any way failed. His proposed reduction, in 1853, of the interest on the Debt was unsuccessful. His calculations of the yield of the Succession

* A sum of £810,000 is added to both the expenditure and revenue as given in the Budget, on account of the army and navy "extra receipts." See *II. 325*, and note to Budget table, *p. 358*.

† *H.*, March 28, 1881.

‡ *H.*, July 24, 1882.

Duty were entirely falsified. His thrice repeated attempt to extinguish the Income Tax came to nothing.

When Mr. Gladstone first became Chancellor of the Exchequer he found the gross national annual expenditure at 55½ millions a-year, when he finally left the Exchequer, it stood at some 85 millions. He found the Customs Tariff loaded with nearly 500 duties, he left it with the number reduced to under 50. The tax revenue of 1852 was 54 millions; in 1881 it was 71½ millions, and in the thirty intervening years some twenty millions and a half of taxation had on balance been remitted.* The load had been shifted, but the burden on "the animal" was indeed immense.

* Taxation imposed, 53 millions, repealed, 72½ millions.

# CHAPTER XXXV.

## THE END.

### 1882—87.*

"Though we have peace, yet 'twill be a great while ere things be settled. Though the wind lie, yet after a storm the sea will work a great while." † From the very beginning the Government of 1880 had been beset with difficulties. Some important points in connection with the Berlin Treaty were still unsettled when they acceded to office. Afghanistan was still a source of trouble and anxiety. It was not long, moreover, before the Transvaal broke into flame. Egypt soon followed suit; and finally, first the Soudan and then Russian proceedings in Central Asia, involved the country in manifold and costly complications.

Perhaps no abler Cabinet was ever formed than that of 1880, and, for the first time in English history, every section of the Liberal party was represented. But it contained within itself elements of instability. Every section of opinion had representatives of exceptional ability, of strong views and of marked individuality; insomuch, that it is probable the country might have been better governed if there had been a little less ability and a little more unanimity. In 1881 Lord Beaconsfield died,‡ and for a time there was a "dual control" of the Conservative party, with the leadership in commission—a state of things which, while weakening the Opposition, had its evil effects on the Government as well.

Obstruction was rampant. The Irish Home Rule party, now efficiently organized, and permanently in opposition, the Fourth Party, and the candid friend were all prominent in attack. The

* See *Preface, p. xi.*

† *Table Talk* of John Selden.

‡ April 19, 1881.

"Bradlaugh incidents" led to enormous waste of time, and to an amount of irritation which recent events have made to appear almost incredible. But a Government that is determined to get through business can do so—in time. And some considerable legislation, some great reforms were carried through, if carried through only with difficulty and with friction. A great Reform Bill was introduced, and, after a tussle with the "Lords," was carried in the most satisfactory manner possible for a measure of the kind—by a dignified compromise. A Corrupt Practices Act was passed, which has proved very efficacious in checking election expenditure—at election times. The Government never, for some reason, attempted a Local Government Bill, and they dropped their London Municipal Reform Bill without even pressing it to a second reading. They made a considerable further advance in the matter of national education. They instituted a new form of dealing with the inevitable Bankruptcy question. They passed an Agricultural Holdings Act, improved the Patent Law, and settled the "Burials" question. They amended the law relating to "Employers' Liability;" and those relating to Sanitation, Factories, Friendly Societies, &c., were further dealt with. They introduced the parcels post, the postal order, and practically the sixpenny telegram. Flogging in the Services was abolished; and the Army was further "organized," the system of enlistment, reserves, "welding" and localization instituted in 1869 were improved.

Ireland filled a very large space in the Parliamentary record of the five years. There was a "Compensation for Disturbance" Bill, a far-reaching Irish Land Act, an Arrears Act, and two Irish Coercion Acts. The Chief Secretary was foully murdered; there were outrages, agitation, plots and explosions.

But perhaps Foreign affairs played the principal part in the politics of the time, and it was, as usual, foreign policy and foreign complications, wars and rumours of wars, which embarrassed our finances and injured our trade. War, while it makes peers at one end of the scale makes paupers at the other. The English Government were successful in initiating, and, at first, in keeping together to some good purpose, the Concert of Europe; and by its means, after delays truly Oriental, the questions in regard to Montenegro and to Greece were settled. An attempt by the same means, to deal with the Egyptian question and with that of the

Suez Canal proved less successful. The closing days of 1880, and the early days of the following year, were marked by the Transvaal revolt, ending in the peace of Pretoria of March, 1881—eminently a disputable matter. In the autumn of 1881, Egypt had begun again to cause anxiety, and England and France jointly intervened by diplomatic action. By the summer of 1882, however, affairs had got beyond the power of words to control, and physical force seeming to the British Government to be necessary, England and France parted company. In July the Alexandrian forts were bombarded. Tel-el-Kebir followed in the September of the same year, and Egypt was occupied by British troops—a "six months' occupation" which continues even unto the present day. By the autumn of 1883, Egypt was making good internal progress, and the English Government were looking forward to the practical evacuation of the country, when the Soudan difficulty arose, frustrating all hopes of withdrawal. General Gordon went out in January, 1884. The first Suakim force was despatched in March; the Gordon Relief Expedition started some six months later. In January, 1885, Khartoum fell, and, for the second time, a force was sent to Suakim, and preparations were made for a further advance on Khartoum. But the growing acuteness of the question in regard to the Afghan frontier, which in 1885 brought England and Russia to within an ace of war, soon required the presence of the British troops elsewhere, and the Soudan was evacuated. In 1883 and 1884, our relations with France and with Germany had been far from cordial, and irritating questions arose between them, which, for a time, brought these nations into antagonism to England.

All these dangers and adversities had at least one good effect. They fostered the feeling that the different parts of the great British Empire could and should be more closely knit together by some system of Federation: a feeling which has grown apace, and is already beginning to bear satisfactory fruit.

The excitement of the time culminated in 1885. Khartoum fell, preparations were made for a further Soudanese expedition. The Afghan question with its "regrettable incident" involved a Vote of Credit for six millions. The Liberal Government were defeated on their Budget. Lord Salisbury succeeded to office. A General Election, on a greatly extended franchise, and on a

revolutionary redistribution of seats, took place. The Liberals obtained a majority over the Conservatives; the "Parnellites" came back 86 strong.* On the assembling of the new Parliament, in the beginning of 1886, the Government were defeated on the Address, and resigned; and Mr. Gladstone again, for the third time, succeeded to the Premiership, with Sir W. Harcourt as Chancellor of the Exchequer, and Lord Rosebery at the Foreign Office. The Government declared for "Home Rule"—for an Irish Parliament sitting in Dublin to manage Irish affairs—and in June they were defeated on this question. Parliament was dissolved, and the Government received a crushing defeat at the polls.† They immediately resigned office, and Lord Salisbury again assumed the Premiership, with Lord R. Churchill as Chancellor of the Exchequer and Leader of the House of Commons. In December, 1886, Lord R. Churchill resigned—a Chancellor of the Exchequer was, for the first time, sacrificed at the shrine of economy—and in January, 1887, Mr. Goschen joined the Conservative Ministry as Chancellor of the Exchequer.

Without actually tracing the successive Budgets from 1883 onwards—though something will be said of that of 1885—mention must be made of the chief financial proposals of these years. The most important matter was that undertaken in 1883 in reference to the system of terminable annuities. In 1884, an attempt, not very successful, was made to reduce the interest on the National Debt. In the same year, an abortive scheme was put forward for rehabilitating the gold coinage. In 1883, also, the railway duty was improved and reduced by one-half.

The debt scheme carried through in 1883 was of great importance. For the previous thirty years all the terminable annuities that had been created, had been calculated to run until the year 1885.‡ The object in view in thus making them simultaneously

* The numbers, according to the *Times* (Dec. 31, 1885) were, Liberals, 333; Conservatives, 251; Nationalists, 86; together, 337.

† According to the *Times*, the new Parliament was composed as follows: Conservatives 316, Liberal Unionists 76, together 392; Liberals 192, Nationalists 86, together 278. *Dodd* makes the "Unionists" 77, and the Opposition 277.

‡ The nucleus of these terminable annuities was the annuity, amounting to £116,000 a year, created in 1855, in connection with the war loan of sixteen millions of that year. See *II. 29 n.* and *203 n.*

expire had been that the revenue might, as in 1860, at once, in a single year, be relieved of a considerable charge, and thus a large surplus be placed at the disposal of the Chancellor of the Exchequer of the time, which could be utilised, either for the reform of taxation, or in connection with a fresh arrangement in regard to the debt. Thus, no less than five millions of terminable annuities would expire in 1885, and it was thought advisable by Mr. Childers and Mr. Gladstone (the proposal had indeed been foreshadowed in the Budget speech of 1881) to anticipate that year, and to make a permanent arrangement in connection with the debt, before the question of debt redemption came—as in 1860—into sharp, and probably unsuccessful, conflict with that of remission of taxation.

The estimated charge for the permanent debt stood, for 1883, at twenty-nine millions, namely, the original £28,000,000 annually applied under the operation of the sinking fund of 1875,* the £800,000 added to it in 1880 for five years, and the terminable annuity of £120,000 a year created in 1881, in order to repay the two millions of loan to India, which had been converted into a gift in 1880. The scheme was ingenious, simple, and satisfactory. The New Sinking Fund was left intact, at its original figure of £28,000,000 a year, the additional £800,000 being allowed to lapse in 1885. The £5,135,000 of annuities falling in,† were converted into one annuity of £684,000 a year, to run for twenty years. The balance of the revenue set free was devoted to the creation of further annuities in place of £70,000,000 of stock standing to the credit of the Court of Chancery, and of the Savings Bank, still leaving, however, over £40,000,000 of stock in hand to meet any possible demands. This £70,000,000 of stock was cancelled; and in lieu of the £40,000,000 constituting

* In consequence of the increased charges that had come on the new sinking fund, the total reduction of debt effected by it in 1881 and 1882 had been but slightly in excess of £200,000 a year. The elaborate calculations of 1875 had long since been falsified.

† In addition to the terminable annuities thus dealt with, there were left untouched the life annuities, and annuities for terms of years, &c., of a capital value of (1884–5) £9,900,000, and entailing an annual charge of £1,080,000 a year, and further annuities created at different times and expiring one in 1885 (the old Crimean loan annuity), another in 1903 (redemption of capital created by issue of 2½ per cent. stock), and two others in 1908 (a small Red Sea Telegraph annuity; and a Savings Bank deficiency of 1880 annuity, of a capital value of £2,600,000, and entailing an annual charge of £180,000). (See *P. P.* 270 of 1883, and 255 of 1885, &c.)

the Chancery stock, an annuity of £2,665,000 a year was created, also to run for twenty years. In lieu of the £30,250,000* of Savings Bank stock, three annuities of £1,200,000 each were created: one to run for five years, at the expiration of which time it was to be renewed by the further cancellation of stock for another fifteen years, and at the end of that time again renewed, and so on, as long as thought expedient; the second was to run for ten years, and then similarly to be renewed and re-renewed, for further fifteen years; the third was to run for fifteen years, until 1898, and also, and similarly, to be renewed and re-renewed for a like term; that is to say, a third of the whole amount of the £3,600,000 of annuities would be renewable and renewed every three years; and, in connection with each operation, a further 22½ millions of Savings Bank stock would be cancelled.

The total annual cost of all these annuities came to £6,950,000,† against which there would be an annual saving of £7,230,000,‡ the difference, some quarter of a million, going to increase the new sinking fund, and raising it at once to about half a million a year. The annual expenditure was in no way affected by the scheme. All that was done was, by an internal arrangement within the fixed annual debt charge of twenty-eight millions a year, to secure that the five millions of revenue to be set free in 1885, should continue for a further term of at least twenty years, to be applied to the redemption of the debt.‖

The upshot of the operation, if all went well, and if it were left untouched, would be the redemption, by 1903, of no less than 123¼ millions of debt.** In that year £3,374,000 of annuities

* Sixty-one millions of stock in all were held by the Court of Chancery, and fifty millions by the Savings Banks.

† Namely, £684,000 + £2,670,000 + £3,600,000 a year. (See *P. P.* 179 of 1883, 268 of 1884.)

‡ Namely, terminable annuities expiring, £5.130,000; interest saved on £70,000,000 of stock cancelled, £2,100,000.

‖ The immediate result of the cancellation of the seventy millions of Chancery and Savings Bank stock was to reduce the funded debt to £641,000,000, the lowest point it had reached since 1811.

** It was estimated that in addition, some 27 millions of debt would be redeemed under the operation of the new sinking fund, and (exclusive of the "old sinking fund") a further 23 millions by other means; making in all some 173 millions of debt redeemed in the twenty years. (See *P. P.* 270 of 1883.)

would fall in, leaving still outstanding the £3,600,000 of "rolling annuities." But, alas! as usual, all did not go well; the new plan did not remain untouched. Two years later, the author of the scheme himself was forced, by stress of expenditure, temporarily to suspend the terminable annuities he had created in 1883. In 1887 the new sinking fund was permanently reduced by Mr. Goschen to twenty-six millions. This plan was carried out by converting the "rolling annuities" of £3,600,000 into a single annuity of £1,930,000 at a saving of £1,670,000 a year, the odd £366,000 still required being obtained by reducing the effective of the new sinking fund by that amount. But, nevertheless, in spite of these mishaps, and in spite of its mutilation, the scheme of 1883 is working satisfactorily, and every year tends to a larger and larger reduction of the National Debt.

Since the unsuccessful attempt of 1853,* no proposal had been made to reduce the interest on the National Debt. In 1884 the matter was again taken in hand.† But, though slightly more successful than that of 1853, the scheme failed; fortunately, as it now turns out for the nation, seeing that a much more advantageous bargain has since been completed than it was possible to make in 1883.

The proposal of 1884, founded on a voluntary, and not on a compulsory basis, was an offer to the holders of any of the great 3 per cent. stocks—"Consols," "New Threes," or "Reduced"—of £102 of a new 2¾ per cent. stock not redeemable until 1905, or £108 of 2½ per cent. stock, in exchange for every hundred pounds of "threes."‡ But "the City" did not receive the scheme kindly—a Liberal Chancellor of the Exchequer is not a *persona grata* in the City—foreign politics, and affairs in the Soudan, gave rise to anxiety, and the conversion failed. Only £4,650,000 of 2¾ stock was taken up, and but £19,230,000 of 2½ stock was issued, of which £12,000,000 was taken by Government Departments.

* See *I. 128.*

† The scheme was unfolded in the Budget Speech. (*H.*, April 24, 1884.)

‡ There was then outstanding some £13,600,000 of 2½ per cent. stock to which it had grown from the three millions created in 1863. The stock now stood at 91 in the market, to which it had risen from 86 of two years previously. Consols stood at 101⅛.

The whole net annual saving on the operation amounted to no more than £46,700 a year.*

While this work is going through the press, Mr. Goschen's conversion scheme of 1888 has been carried through,† and he and the nation are to be congratulated on its assured success. The proposal had everything in its favour, the cheapness of money, the price of the funds, the singularly strong financial position of the Chancellor of the Exchequer. The scheme itself was, moreover, an excellent one—combining simplicity with apparent finality, while the necessity of "a commission" was not forgotten. The "New Threes"—the Goulburn stock of 1844—amounting to 166 millions, was the stock immediately affected; a stock which, since 1874, it has been in the power of the Government to redeem without notice at any time they chose. Mr. Goschen offered the holders the alternative of redemption, or conversion of their stock into a new two and three quarter per cent. stock at par,‡ to fall to 2½ per cent. in 1903, and guaranteed against redemption until 1923.

The same terms are offered to the holders of all other descriptions of 3 per cent. stock;‖ and the terms have been largely accepted, and probably before very long the whole of the debt will be converted into a two and three quarter stock, which in fifteen years will fall automatically to 2½ per cent.**

The saving in interest from this conversion will be, on the New Threes alone, some £410,000 a year until 1903, and then a further £410,000. If all the other stock is also converted, the total saving will be at once £1,400,000, and in 1903 no less than some £2,800,000 a year; and this without any increase at all in the capital of the debt.

* There was an increase in the capital of the debt of £1,500,000, caused by the change, and to extinguish this additional capital an annuity of £15,500 a year was created to run for fifty years. (See C., 1884, 4311.)

† Introduced on March, 1888. See Speech, and Official Memo of Chancellor of the Exchequer. Silence was to give consent to conversion, unless specific dissent were expressed within three weeks after notice. The holders of under half a million of stock alone have preferred cash to "New Consols."

‡ The existing 2¾ per cent. stock then stood at just over par.

‖ Together with a little offering of 5*s.* in cash per £100 stock to holders of Consols and "Reduced Threes" by way of compensation for the notice to which they were entitled. A brokerage of 1*s.* 6*d.* per cent. was to be paid to recognised agents who brought in stock for conversion.

** In addition to the £166,000,000 of New Threes converted, no less than about £250,000,000 of Consols and Reduced have also been converted, making a total 2¾ per cent. stock of over £400,000,000.

The railway duty which was reduced in 1883, was first imposed by Althorp in 1832, when railways were in their infancy, at the rate of ½*d.* a mile for every four passengers; a tax that was altered in 1842 to a duty of 5 per cent. on the gross receipts from passengers.* In 1844 an Act was passed, intended for the benefit of the working classes, creating "parliamentary trains" for the conveyance of third class passengers, at fares not exceeding 1*d.* a mile, in order that the poorer class of travellers should be enabled to travel at moderate fares and in carriages in which they should be protected from the weather.† Up to that time, the accommodation provided for third-class passengers had been atrociously bad. The carriages were, in many cases, mere open trucks, without seats, usually without roofs. The trains were infrequent, slow, and unpunctual. Under the Act of 1844 one "parliamentary train" was to be run every week-day, along the whole line, at a rate not less than twelve miles an hour, and these trains were exempted from the passenger duty. Soon arose a somewhat curious point. At first the railway companies had looked upon third-class passengers as unprofitable and to be discouraged. Gradually it was found that they were eminently profitable, and the companies changed their tactics. They greatly increased the number of the cheap trains, as well as of "excursion" trains, at the lowest rate, and on these latter they claimed exemption also—a claim which led to considerable dispute between the railway companies and the Exchequer. Unsuccessful attempts were made by Mr. Gladstone in 1863 and by Mr. Lowe in 1870, to alter the rate, and to charge it differently. In 1876 a Select Committee sat to consider the question of the duty. By a majority of nine to six, they reported in favour of the total abolition of the railway duty, "whenever the state of the public revenue will permit," while they were unanimous in recommending that the duty should be abolished in regard to penny fares and reduced in the case of low fares in urban

* In 1833, the railway passenger duty produced but £6,000. In 1842 it reached £153,000, and by 1857 had risen to £350,000. In 1868 it yielded half a million, and in 1882 about £800,000. On the other hand the corresponding stage-carriage mileage duties and licences, which yielded £460,000 in 1833, had dwindled to £50,000 in 1868, the year before their repeal.

† Act of 1844 (7 & 8 Vict. c. 85).

or suburban districts.* But when the question was raised in the Budget of 1883, the Chancellor of the Exchequer,† not thinking that "the weight of evidence was on the side of total abolition," only remitted the duty on all fares not exceeding a 1*d.* a mile. And, in order to place "urban railways" on a fair footing with the competing omnibus service, now exempt from all special duties, the duty of 5 per cent. was, on such railways, reduced to 2 per cent. On all other railways the duty of 5 per cent. would remain unaltered. As a *quid pro quo*, the Board of Trade were given power to insist on sufficient accommodation for all parts of the line, at fares not exceeding 1*d.* a mile, and also to insist on additional workmen's trains if requisite. The result of the alteration was to reduce the duty by one-half, from £800,000 to £400,000 a year.

The other financial proposal of importance, on which, however, we need not dwell, as it was not pressed, was that of 1884, to rehabilitate the gold coinage.‡ It was estimated that, in 1884, there were in circulation ninety millions of sovereigns, and twenty millions of half-sovereigns, 55 per cent. of which were "light," and not therefore "legal tender."‖ The total depreciation on the two together was estimated at about £710,000. The proposal made by Mr. Childers was to maintain intact the value of the sovereign, as a coin of international and national use, and, by bringing it up to proper weight and a sound condition, to maintain its credit. In order to do this without loss to the country, the half-sovereign—a coin purely of domestic use, and one losing weight much more rapidly than the sovereign—was to be reduced to the position of a "token;" that is to say, its real

* *P. P.* 312 of 1876. † Mr. Childers, *H.*, April 5, 1883.

‡ There had been re-coinages in the time of Elizabeth (see Cunningham, p. 290), again in 1696 (see Macaulay, chap. xxi.), again in 1717, and again in 1794. (See Porter, p. 449; Levi, p. 135; Dowell, iii. 237, Lecky.) "The question of the currency," said Mr. Goschen at the Mansion House in 1887, "next to religion and love, is the subject which has driven more people mad than any other."

‖ The deficiency was considerably more in proportion on the half-sovereigns than on the sovereigns. Out of the 90 millions of sovereigns, 50 millions were "light," and the loss was put at £510,000. Of the 20 millions of half-sovereigns, 11 millions were below their proper value, the loss being estimated at £200,000. Under the existing law, the tender of a light coin is a misdemeanor punishable by fine or imprisonment, and the person to whom it is tendered, may either refuse it, or if he receives it, must immediately break it up and charge the tenderer with the loss. If he receives it, and does not break it up, he also is guilty of a misdemeanor. The law is of course a dead letter.

value was, as in the case of the copper and silver coins, to be in future less than its nominal value, while the coin would be legal tender only up to £5. On the coinage and issue of the token half-sovereign, a profit would ensue, which it was estimated would cover the cost of rehabilitating the sovereign.* The light sovereigns would be gradually called in, and new ones of the proper weight re-issued.

For the expenditure and the financial proceedings of the five years 1880 to 1884, the Government of Mr. Gladstone were fully responsible. The financial year 1885–6 was one of such confusion, both politically and financially, both at home and abroad; one Government beginning it, another ending it, many of the financial proposals of the first being repudiated by the second, that it must be put in a category by itself.

The gross expenditure † of 1880 was £83,100,000; that of the four years 1881, 1882, 1883, and 1884, was respectively £85,500,000, £89,700,000, £87,900,000, and £91,000,000. The extraordinary expenditure included in these totals, due in part to the action taken in the years themselves, and part consisting of the liabilities incurred in 1877 to 1880, and spread over these years, was, for 1880, £2,530,000; for 1881, £4,000,000; for 1882, £5,860,000; for 1883, £2,665,000; and for 1884, £5,000,000.‡ The debt charge remained substantially the same in each year. It was £29,575,000 in 1880 and £29,550,000 in 1884. The optional expenditure of 1880 was £51,000,000; in 1884 it was about £56,700,000. The business departments showed very unsatisfactory results; the gross receipts rose, indeed, from

* The estimate of the cost of the operation was put at £1,170,000, namely, deficiency in existing sovereigns, £510,000; wear and tear during 20 years, £320,000; cost of re-coinage, £120,000: total, £1,170,000. Against this a profit of £2,500,000 would, it was expected, be received on the issue of "token" instead of intrinsic half-sovereigns. The whole operation would cover 20 years, only a certain amount of the coin being withdrawn and re-issued each year. The balance of profit would thus be about £1,300,000, which if invested, would produce an income sufficient to pay for the annual cost of keeping the gold coinage up to the proper standard of value.

† This is after adding to both sides of the account for every year the "extra receipts" and the "Indian contributions." See *II. 325*, and notes to Budget Tables, 1882–84.

‡ These war charges were as follows:—1880 (see *supra*, note ‖, *289*), £2,530,000, 1881 (see *supra*, note ‖, *298*), £4,000,000; 1882, £5,860,000 (Egypt, £3,895,000; "Legacies," £1,965,000); 1883, £2,665,000 (Egypt, £200,000; "Legacies," £2,465,000); 1884, (est.) £5,000,000 (Soudan and Bechuanaland, est., £3,300,000; "Legacies," est., £1,700,000). See *II. 251, 253, 257, 289*, &c.

£8,300,000 in 1880 to £9,890,000 in 1884, but the gross expenditure rose likewise from £5,370,000 to £7,126,000; while the net receipts, after taking everything into account, which were as much as £3,240,000 by 1880, by 1884 had fallen to £2,930,000.* Local subsidies increased from £5,000,000 in 1880 to £5,700,000 in 1884; the Education grants from £3,700,000 to £4,400,000.† If the increase on these three items be deducted, the total remaining increase in the optional expenditure was nearly two millions and three-quarters.

The ordinary expenditure on the Army ‡ rose from about fifteen to about sixteen and three-quarter millions; that on the Navy from some twelve and a quarter millions to just over eleven. But, in addition, the Admiralty, at first resisting, had at last succumbed to public opinion, which was strongly convinced that in these troublous times the naval strength of England was not what it should be. And in December, 1884,‖ the assent of the House was obtained to a special outlay of five millions and a half, to be spread over not more than five years, for the purposes of strengthening the fleet and protecting the coaling stations.**

To meet the increasing expenditure, taxation was increased on balance by about three millions a year,†† very nearly the whole of the increase being on direct taxation. The revenue both of 1880 and of 1884 was elastic—though its elasticity did not approach

* See Net Expenditure Return, *Appendix F.*

† Some of this was due to increased expenditure on account of the "government" of Ireland, "Force" (constabulary and resident magistrates) and "Remedy" Land Court, &c.), each, especially the former, involving increased outlay.

‡ Exclusive of the war charges, which were met from the grants, and of "purchase."

‖ *H.*, Dec. 2, 1884; Northbrook (Lords); Brassey (Commons). "The truth is that at the bidding of the nation," says Lord Brassey, then the Secretary to the Admiralty, "the Admiralty entered upon a new policy." *Naval Annual*, 1886, p. 11.

** The amount proposed to be spent on the coaling stations was £825,000. A Royal Commission, appointed in 1879 to enquire into the state of the defences of our Colonial possessions and commerce abroad, had reported in 1882, and had pointed out the urgent necessity of the immediate fortification of the coaling stations. The Report was secret, but parts have been published in the Proceedings of the Colonial Conference (G. 5091, I. pp. 295–338). In 1885, the Secretary of State for War (Mr. W. H. Smith, *H.*, July 27) stated that some four millions additional was to be expended on improving the sea-coast defences of the great commercial and military ports. How far in either case action has been taken in the matter, and what is the present state of those vital points of the Empire, it is impossible to gather from official utterances.

†† By publicans' licences (1880) £430,000, by probate duty (1881) say £500,000, by income tax (1883) £2,000,000. In 1880 a penny income tax was imposed to produce £1,800,000 a year, but it was taken off in 1881. In 1882 a penny halfpenny income tax was imposed to produce £3,000,000, and was repealed the next year.

that of ten years before—the increase of receipts amounting in each case to between a million and a quarter and a million and a half;* but in 1881, in 1882, and in 1883 the normal growth of revenue amounted each year to only some half million or less. The total tax revenue in 1879 was £67,800,000, and in 1884 £73,800,000, an increase of six millions. But the additional taxation actually falling on 1884 as compared to that falling on 1880 was about £2,000,000; so that the real increase of revenue in the five years was about four millions. The harvest of 1880 was a fair one, but that of 1881 very bad, while the general feeling of unrest on the Continent disturbed trade. There was, however, a good deal of speculation and many new companies were formed. The harvest of 1882 was also poor, and that of 1883 again bad; and, by this time, the hopes of improving trade, which had flickered up in 1880 and 1881, had almost disappeared, and a dull depression again settled down upon the land.

In each of the four years, 1880 to 1883, a surplus was realized, —in 1880 one of £930,000, in the second year of £350,000, in the third year of £98,000, in the fourth of £200,000. In 1884 there was a realized deficit of a million, against which deficiency there was some half million of income tax, imposed in November, still uncollected.† But, exclusive of this, the credit balance on the five years came to about half a million; and this, in spite of the very large amount of war liabilities, past or present, of no less than twenty millions, that were liquidated in the five years. The reduction of debt amounted on balance to £29,600,000,‡ which, if added to the war charges met, gives a total redemption of debt and liabilities of nearly fifty millions, or ten millions a year. The Government fell on evil times, and in respect of their foreign policy incurred much obloquy; but, at least, it remains to their financial credit, that, in spite of the high taxation in force, and of the fact that much of the expenditure annually met was due to the war charges of years gone by, they did not shrink

* The revenue of 1884 benefited, however, considerably—probably to the extent of nearly half a million—at the expense of that of 1885 by anticipatory deliveries out of bond.

† The deficit was not in any way a premeditated deficit, for if the fall of Khartoum had not necessitated increased expenditure, there would have been a realized surplus at the end of the year, the expenditure on the Relief Expedition having been very accurately estimated.

‡ See Debt Table, *Appendix D.*

for a moment from imposing the necessary taxation when difficulties arose, and when deficiencies would have otherwise accrued.

In 1884, for the first time since 1815, the expenditure of the country exceeded ninety millions.* For 1885 the estimate of ordinary expenditure—in spite of a reduction of the debt charge by about three-quarters of a million—was £90,440,000.† To this had to be added no less than 11¾ millions of extraordinary expenditure. The final instalment, a quarter of a million, of the grant in aid to India for Afghan war had to be paid; a further half million was required for the Bechuanaland expedition; and, above all, a vote of credit for eleven millions, which, in view of the serious aspect of the relations between England and Russia, had been taken a week or two after the beginning of the financial year, in order to enable the Government to hold all the military resources of the Empire "available for service wherever they might be required."‡ The total estimated expenditure would thus be no less than £102,200,000.‖ The revenue—the income tax being taken at 5*d.*, that is, exclusive of the extra penny half-penny imposed in the previous autumn**—was put at £87,260,000, leaving a deficiency of no less than fifteen millions.

The estimated deficit, of which the Chancellor of the Exchequer spoke with a certain mild elation, as the biggest on record since the worst year of the Crimean War, was not very much under that of 1855, when the deficiency (met by loan) came to £18,875,000.†† But the whole expenditure of that year was only £92,600,000, or ten millions less than the expected expenditure of 1885.

The proposal made by the Government was to meet half the deficiency by means of taxation; to obtain some four and a

* Actually £91,100,000. Only in the years 1812, '13, '14, and '15 was the national expenditure higher than in 1884 and 1885, namely 94¾, 111, 113, and 99½ millions respectively. The expenditure of 1885 was nearly double that of 1835.

† Including £200,000 of expected supplementary estimates. Budget Speech, *H.*, April 30, 1885. The New Sinking Fund fell again from the £28,800,000, to which it had been raised in 1880 for five years, to the old 28 millions.

‡ *H.*, April 21, 1885.

‖ The figure and that of the revenue is, on the system of proper comparison explained elsewhere, (*II. 325*, and notes to Budget Tables, 1882–86,) £2,120,000 greater than that given in the *Statistical Abstract*.

** See *I. 263*.

†† Second Budget estimate, *H.*, August 2, 1855.

half millions by the suspension for one year of the capital portion of the terminable annuities brought into existence in 1883,* and to carry forward the balance of two and three-quarter millions. The new sinking fund, other small sinking funds, and the remaining terminable annuities would be still left unsuspended, and by their means some £1,700,000 of debt would still be redeemed in the year, and thus the net increase of debt in 1885 would only amount to a little over a million. Roughly speaking, it may be said, therefore, that the intention of the Government was to meet fourteen out of the fifteen millions of liabilities within the year by existing or additional taxation on the year.†

The taxation proposed by the Government was to increase the beer and spirit duties to the extent of £1,650,000—£750,000 to be obtained from the former and £900,000 from the latter;‡ to raise the income tax from 5*d.* to 8*d.*, producing £5,400,000 in the

* See Budget speech, 1885, and *P. P.'s* 192 of 1885, 232 of 1886, and 19 of 1887.

† The sum which would, if no alteration had been made in 1885, have been applied to the purpose of meeting the terminable annuities, amounted to as much as £8,200,000, of which about £2,600,000 represented interest and £5,600,000 repayment of capital. The annuities were of two classes. The one class consisted of annuities, those held as it were privately, or mortgaged to special objects—such as Annuities for lives or for terms of years, Trustee Savings Bank deficiency annuity, South Sea and Red Sea Telegraph annuities—amounting in all to £1,310,000 a year, of which about £300,000 represented interest and the balance represented repayment of capital.

The other class consisted of the terminable annuities created in 1883 under the Debt Act of that year—annuities held by the National Debt Commissioners on behalf of the Post Office and Trustee Savings Bank and Courts of Chancery, in all some seven millions annually, of which about £2,300,000 represented interest, and £4,600,000 to £4,700,000 repayment of capital. The former class of annuities was to remain intact; of the latter, that portion of the annual charge which represented repayment of capital was to be diverted from the annuities to the purpose of the direct reduction of the war debt, the operation of the Debt Act of 1883 being extended for an additional year.

‡ The additional beer and spirit duties being imposed on a diminishing receipt—the consumption of intoxicants had of late seriously decreased—and times being bad, the estimate of the revenue to be derived from them had to be formed on the supposition of a very large falling off in consumption, in consequence of the burden of the increased duty. The consumption of spirits in 1884 had been about 36 million gallons, producing some £18,000,000. The extra duty of 2*s.*, raising the tax from 10*s.* 4*d.* to 12*s.* 4*d.* a gallon, would, if the consumption had remained undiminished, have produced some £3,600,000. But it was expected that instead of 36, only 32 million gallons would be consumed in 1885, and that thus the total increase in the produce of the tax would be not £3,600,000 but only £900,000! Similarly, the increase of 1*s.* on the barrel of beer (of 36 gallons) would, on the consumption of the previous year, have yielded some £1,300,000, but the extra revenue to be derived could only be put at £750,000. Clearly the year 1885 was a very unfortunate period in which to have to impose increased taxation on spirits and beer, a time, indeed, in which any Chancellor of the Exchequer, with the faintest instinct of self-preservation, would have avoided if he possibly could the imposition of such taxation. But there was "nae wale o' wigs"; it was practically a case of Hobson's choice, and even taxation of this description was better than an enormous deficit.

year; and to increase the succession duty so that it should produce at once about £200,000 additional, in 1886 £400,000, and, by 1889, some £850,000 a-year. The "death duties" were to be extended to "Corporations" in the form of a five per cent. income tax,* and the stamp duty on bonds and foreign securities "payable to bearer" was raised. This additional taxation was estimated to produce £7,500,000 of revenue in the current year, of which £1,650,000 would be from indirect, and the balance from direct taxation.

An amended Budget was introduced in June.† The fear of war had then passed away, and it was estimated that, instead of eleven, only nine millions of the vote of credit would be required. The proposed additional spirit duty was therefore reduced by one-half, to produce, however, £600,000 instead of £900,000. The additional beer-duty was to be imposed distinctly as a war-tax, to be taken for one year only. The estimated deficiency to be carried over was reduced from £2,800,000 to about £1,100,000.

On the second reading ‡ of the "Customs and Inland Revenue Bill," which embodied the amended Budget proposals, a hostile amendment was moved.‖ The debate closed the same evening. The Government, after declaring that the division would be treated by them as vital, were left in a minority of 12;** and for the second time—the first being in 1852—a Government resigned on the defeat of its Budget proposals.††

The new Chancellor of the Exchequer, and temporary Leader of the House of Commons, after the change of Government, was

* The pitfall into which Mr. Gladstone had fallen in 1863, when he proposed, while taxing corporations, to tax "charitable bodies" as well, was now avoided, and it was not proposed to extend the tax to "religious bodies and charities, and the income of societies which is derived from the donations and contributions of living persons."

† *H.*, June 5, 1885. ‡ *H.*, June 8, 1885.

‖ The amendment was to the effect that "This House regards the increase proposed by this Bill in the duties levied on beer and spirits as inequitable in the absence of a corresponding addition to the duties on wine, and declines to impose fresh taxation on real property until effect has been given to its resolution of 17th April, 1883, and of 28th March, 1884, by which it has acknowledged further measures of relief to be due to ratepayers in counties and boroughs in respect of local charges imposed on them for national services."

** 252 to 264. Four Liberals voted against the Government; and about sixty abstained without "reasonable excuse."

†† Bute, however, in 1763, practically resigned because of the unpopularity of his "Cider Bill," just as Walpole, if he had not given way, would, in 1733, probably have been driven from office over his "Excise Bill."

Sir M. Hicks-Beach, the mover of the late fatal amendment. His Budget, to take the place of that which had disappeared with the disappearance of its authors, was introduced in July.* The estimates of the expenditure out of the vote of credit had by this time again been increased; a scandalous miscalculation the expenditure incurred on the Navy had been made by the Admiralty.† The deficiency to be met was now put at £13,800,000.

Criticism is one thing: administration another. The late Chancellor of the Exchequer had been commended by the then Opposition for proposing to place a portion of the burden on indirect taxation.‡ But, though that policy had still his "entire concurrence," the new Chancellor of the Exchequer found himself unable to propose any increase of indirect taxation. The proposed indirect taxation—that on beer and spirits—as well as the proposed death duties, amounting in all, for the year, to some £1,550,000, had been condemned by the House. The only alternative increase that could be made on an article of general consumption seemed to be one on tea; || and such an alternative had been suggested by Sir M. Hicks-Beach himself when moving the fatal amendment.** But he now frankly confessed that an increased

* *H.*, July 9, 1885.

† See Report *P. P.* 311 of 1884. A disheartening statement of the financial mismanagement of the Admiralty.

‡ "There was one part of the financial statement of the Chancellor of the Exchequer to which I listened with the greatest pleasure, and in which I wish to express my cordial concurrence. There is nothing in the amendment which I venture to propose which, to my mind, conflicts in any way with the view expressed by the rt. hon. gentleman that this increased expenditure should not fall wholly on property or on those payers of income tax who are by no means synonymous with the owners of property." Sir M. Hicks-Beach (*H.*, June 8th, 1885.)

|| Not that plenty of other suggestions for increased taxation were not forthcoming. Peel, in 1842, spoke of the "volunteer financiers" with their "pitiful propositions, who fancy that they have made a discovery which puts them nearly on a level with Archimedes, when finding that pianofortes, umbrellas, or such articles are not taxed, they immediately suggest them to the Chancellor of the Exchequer, accompanied with a claim for a very large percentage on the ground of the novelty of their discovery and the certain success of its application." These persons seem to pester every successive Chancellor of the Exchequer whenever any question of the imposition of taxation arises. Sir S. Northcote, in 1879, when the general public believed that further taxation would be imposed, detailed how he had received letters from some 300 persons making 80 different suggestions, in regard to the imposition of taxation, "ranging from photographs, bicycles, and chimney pots, down to cats and bachelors." Mr. Childers, in 1885, had had suggested to him as good subjects for taxation, "cats, soda water, photographs, bicycles, advertisements"—if a tax could be placed on the circular nuisance some good might be done!—"and even on Christian names."

** "I heard many suggestions," said he, "before this Budget was introduced, that

duty on tea would be "so unpopular" that he could not attempt to propose it. Hence, the whole of the increased taxation was practically to fall on the income tax, which, as originally proposed in the April Budget, was to be raised to 8*d*. The proposed stamp duty and corporation tax, to produce together some £250,000, were also to remain, the whole to bring in the £5,650,000 of additional revenue in the year.

The proposal that had been made by Mr. Childers to suspend the terminable annuities of 1883 was also carried out, and, in addition, the new sinking fund, now redeeming some £600,000 of debt, was also, and rightly so, temporarily suspended. By these means, while the revenue would be increased by £5,650,000, the expenditure on the debt would be diminished by about £5,240,000, and the deficiency to be carried forward would be reduced to £2,800,000.

The original estimate of expenditure had been £102,200,000. The July estimate—after taking into account the reduction in the expected expenditure and the suspension of the sinking funds—came to £95,740,000. The actual expenditure amounted to £94,340,000—which included ten millions of war expenditure*—a saving of £1,400,000, of which £400,000 was on the vote of credit, and the rest unfortunately more apparent than real.†

The revenue receipts, disturbed by the great expenditure, by

the increase of indirect taxation might be effected by an increased tea duty. It is not my business to suggest a tax in substitution for the tax of the rt. hon. gentleman; but I cannot imagine that anyone would say that the present tax of 6*d*. per pound on tea was anything but moderate. . . . Strong financial arguments might be adduced for increasing the tea duty. The Chancellor of the Exchequer refers to the steady progress of the consumption of tea, and it is evident from the return that, by a comparatively small addition to the duty on tea, you would obtain from that article as much revenue as the Chancellor of the Exchequer in his most sanguine moments can anticipate from the revenue from these duties on spirits and on beer.' Hicks-Beach (*H*., June 8, 1885).

* In 1886 (Budget, *H*., April 15,—Harcourt) the estimates of expenditure and revenue showed an estimated deficit of rather over half a million. No further taxation was imposed, but the new sinking fund was again suspended, as well as the small sinking fund of 1881, turning the deficiency into an estimated surplus of £258,000. The actual expenditure of the year was £92,125,000, the revenue £92,900,000, the surplus £776,000.

In 1887 (Budget, *H*., April 21,—Goschen) there was an estimated surplus of £290,000. The annual sum applicable to the new sinking fund of 1875 was reduced from twenty-eight to twenty-six millions, at which figure it was for the future to remain. With the surplus thus created, a penny of the income tax was remitted, reducing it to 7*d*., and the 4*d*. a pound added to the tobacco duty in 1878 was taken off; while an additional total grant in aid of £280,000 was made in respect of main roads.

† There was an apparent saving on the Army of some £724,000, but of this the major part was due merely to an over-issue in 1884, and the balance to receipts from Egypt for arrears of charge, which went in reduction of the expenditure.

the increased taxation, and by foreign complications and the continuous political disquietude, showed a considerable decline. The estimate of July had been for £92,910,000; the receipt was only £91,700,000; the actual deficiency on the year 1885 amounted therefore to two millions and a half.

In thus describing somewhat at length the finance of the year 1885, I have travelled beyond the limits I had laid down for myself. But the year was a most memorable one,—memorable, not only from the magnitude of the figures involved, but because it was on their proposals for meeting the enormous expenditure, that the Government incurred a defeat which politically was of supreme moment and of far-reaching effect, and which must inevitably react on the fiscal policy of their successors to all time.

---

The most striking and most disheartening feature of the last few years has been the disastrous expansion of the national expenditure.

Mere indiscriminate comparisons, indeed, of the expenditure of thirty or forty years ago with that of the present day, are futile and misleading;—the wants, the necessities, the standard of expenditure were entirely different then to that which they are now. How is any useful comparison possible between the cost of the Fleet of thirty years ago, and of that now afloat*—between the strength and efficiency of the Army of Crimean times, and of that of the present day? Nor is it only in the case of the army and navy that revolutionary changes have taken place. We have lived fast,

* The *Warrior*, the first English iron-clad, was launched in 1861. Its speed was 14 knots, displacement 9,200 tons, its thickest armour 4½ inches of iron plate; its armament consisted of twenty-six 68-pounders (70 cwt.); its cost was about £360,000. The *Sanspareil*, launched in 1887, has a speed of 16 knots, a displacement of 10,470 tons, its armour is 20 inches thick and partly steel; its armament consists of two 111-ton guns, one 29-ton gun, twelve 5-ton guns, and twenty-seven smaller quick firing guns, together with eight torpedo tubes; its estimated cost is £826,000. According to Porter, a 74-gun ship of 1706 tons, cost (without armaments) about £62,400 in 1805, and only £45,000 in 1836 (p. 596). The armaments and mountings of the *Duke of Wellington* of 131 guns cost, in 1854, £17,000; those of the *Benbow* in 1885 no less than £208,000. Each charge of the 68-pounder cost about 15*s.*, that of the 110-ton gun costs some £153. For this, and for the increased cost of Army material, see W. H. Smith, First Lord of the Admiralty, *H.*, March 22, 1886; Brassey, *The Navy*, p. 234–7; Appendix to Fifth Report of Committee on Army and Navy Estimates, pp. 166, 216—220; Evidence Major-General Alderson, Q. 6458, &c.; Carbutt, *Address*, p. 849; Report Royal Commission on Warlike Stores, 1886, p. 93; Mr. Sennett and Capt. Orde Brown, *Reign of Queen Victoria*, i. 258–264; Lord Wolseley, *ib.*, i. 156, 203.

in every way, during the last twenty years; our social, educational, sanitary, and other wants have enormously increased, and the expenditure has correspondingly swelled. "We may not," as Mr. Montague has remarked, "be as virtuous as we suppose; but we are more respectable than men ever were before"; *—and respectability is an expensive luxury.

No one, probably, wants, as Disraeli once said, to make war on progress and civilization by curtailing the national expenditure on education, health, or justice. Yet, even in regard to these items, it is too much the fashion to assume that expenditure must of necessity mean efficiency. But probably there is nothing much amiss with the Civil or Administrative expenditure —we hear, at least, of no great scandals or breakdowns in connection with those departments.

Unfortunately, however, it is far otherwise with the Services. From the time of Pepys † to that of Dundas,‡ from the time of Dundas until now, there have ever been many "black days" for the Navy; while, since the middle of the eighteenth century, when the first Parliamentary inquiry into the military expenditure was ordered,‖ "revelations" as to the inefficiency of the War Services have followed one another in regular and dismal succession. If, indeed, Commissions and Reports were sufficient to salvation, we should long ago have found it; but just as surely as "reform" has succeeded inquiry, so a "scandal" or a breakdown has succeeded "reform." The advice, freely showered, has been sometimes taken, and sometimes neglected; and now the whole Army and Navy system has again to be turned topsy-turvy, and for the hundredth time remodelled.

Whether the two fighting Departments will come out of the

* *Limits of Individual Liberty*, p. 75.

† ". . 15th. Home and to my flageolet. 17th. To my office, where busy all the morning, particularly setting my people to work in transcribing pieces of letters publique and private, which I do collect against a black day to defend the office with and myself." "I do see," he notes later on, "everybody is upon his own defence, and spares not to blame another to defend himself, and the same is the course I shall take." (Pepys, iv. 378–9, v. 62.)

‡ The acceptance by the House, in 1805, of the "Tenth Report" of the Naval Commissioners, and their impeachment of Lord Melville—the Harry Dundas of earlier years—stung Pitt to the quick. "We can get over Austerlitz," he said to Huskisson, at Bath, "but we can never get over the Tenth Report. Such is the nature of Englishmen." (See Lord Holland's *Memorials of the Whig Party*, ii. 48; Lewis, *Administrations of Great Britain*, p. 257.)

‖ *P. I. & E.*, ii. 671.

crucible in a better state than they went in; whether, in future, the nation will be guaranteed against guns that burst, and shells that don't,* against jamming "Gardners" and unmanageable rifles, against bending bayonets and brittle swords, against the acceptance of stores without supervision or examination; whether real business principles will at last be introduced; whether a practical and workable mobilization scheme for both services will be completed in time for our next war; finally, whether we shall at last have power to hang somebody when things go wrong—remains to be seen.†

The nation has witnessed, and witnessed in vain, so many infallible reorganisations, that it is hardly a matter for wonder

* We seem to have improved but little in these matters in the last ninety years. In 1799, Fox, being but slightly wounded in his duel with Adam, attributed his escape to his opponent's having surreptitiously used "Government Powder."

† In 1886, in consequence of the late misadventures in regard to arms and ammunition, a Royal Commission was appointed to enquire into the system under which patterns of warlike stores are adopted, and the stores obtained aud passed for Her Majesty's Service. The Commission was presided over by Sir James Stephen, and the Report, besides being of painfully practical interest, as an account of what we do *not* get for our money, is, as a literary composition, worthy of a better fate than entombment in a blue book. (C. 5062 & 5062 I.) The Commissioners wound up their Report with a sweeping condemnation. "The present system," said they, "is directed to no definite object; it is regulated by no definite rules; it makes no regular stated provision either for the proper supply and manufacture of warlike stores or for enforcing the responsibility of those who fail to make them properly, or for ascertaining the fact that they are made improperly. It is to these defects in the system that we attribute most of the matters complained of."

The Reports (and the evidence) of the other innumerable Commissions, Parliamentary and Departmental Committees, which have of late been enquiring into our public departments, should be studied—most of them are well worth very careful study—by everyone interested in the efficiency of the Services, and who is not? The most important of these enquiries, not to go further back, were the Select Committee on Admiralty (Expenditure and Liabilities) 1885 (*P. P.* 311 of 1885); the Committee on the "Organization and Administration of the Manufacturing Department of the Army," 1886–7 (C. 5116); an Admiralty Committee appointed to enquire into the "System of Purchase and Contract in the Navy," 1886–7 (C. 4987); and the Statement issued in 1887 showing the action taken by the Admiralty in consequence of the Report (C. 5231). The Committee appointed to enquire into "Dockyard Administration and Expenditure," 1886–7 (C. 4979); and the Committee on "Cutlasses and Sword Bayonets supplied to the Royal Navy," which unfolded a startling story of muddle, waste, and non-responsibility in a public department (C. 5014, 5014 I., 5115, 5241). In addition to these a Commission and a Committee are still sitting; namely the Select Committee on "Army and Navy Estimates," and the Royal Commission of Enquiry into the Civil Establishments. The latter has as yet issued but one volume, containing more of retrospect than suggestion (C. 5226). The former, under the chairmanship of Lord Randolph Churchill—who deserves the thanks of his countrymen for insisting on the appointment of the Committee, and for the acute and able manner in which he has conducted its business—has issued already five volumes of evidence and a preliminary report, dealing only as yet with the War Office. (*P. P.s* 216, 223, 223 I., 232, 232 I., 239, 259, 295 I. of 1887, and 120 of 1888.) See also the Memos. of the Secretary of State for War and the Statements of the First Lord of the Admiralty for 1887 and 1888.

if the new scheme, with the great results that are to follow, leaves them "more than usual calm." It may be, as Pepys remarked two hundred years ago, "impossible for the King to have things done as cheap as other men;" but, if we cannot get economy, we ought at least to have efficiency; of late we do not seem to have secured either the one or the other.

# APPENDICES.

# APPENDICES.

## APPENDIX A.

### CHANGES IN THE SYSTEM OF THE PUBLIC ACCOUNTS.

From time to time very considerable changes have been made in the system of presenting the public accounts, more especially since 1882, changes which render casual comparisons of the expenditure and revenue of different years singularly futile. Indeed, the financial student cannot be too early warned not to place implicit trust in that treacherous guide, philosopher, and friend, the "Finance Accounts of the United Kingdom of Great Britain and Ireland."

"The not distinguishing where things should be distinguished, and the not confounding where things should be confounded, is," said Selden, in 1689, "the cause of all the mistakes in the world." And certainly our public accounts do not possess that "intelligibility," which Sir G. Lewis once said was so essential in public life. They are, and especially were, fearfully and wonderfully made. If words are given to conceal thoughts, figures may be said to be there given to conceal facts. And it is astonishing with what indifference a nation of shop-keepers have allowed their annual accounts to be presented to them in a manner the most unbusinesslike.

We have recently been officially informed that the form in which, up to now, the Army and Navy Estimates have been drawn up was intended not for the greatest information of the greatest number, but for the benefit of the Auditor-General alone.* "Would it, for instance," asked Lord R. Churchill, Chairman of the Committee of 1887 on the Army and Navy Estimates, of the Accountant-

* Committee on Army and Navy Estimates, Q.s 31—35, &c. (*P. P.* 216 of 1887).

General to the War Office, "have been possible for any private individual to have ascertained from the Estimates laid before Parliament from 1870 to the present year, the total increase of the net Army expenditure, amounting to almost £9,000,000?" "I think," said the Accountant-General to the War Office, "it would have been extremely difficult; I mean that no one could have brought out an exact comparison by merely taking the figures that were presented to Parliament for that year and comparing them with the next year. This, like most other series of facts, is really a question of history; and unless a person were prepared to study accurately military history from 1874–75 down to 1887–88, it would be quite impossible for him to glean any information by a mere comparison of the figures." Again, "Could you tell the Committee what the cost was of the Colonial Staff in 1874?"—"No, I cannot compare those figures, because although I have had the figures as given in the Estimates, yet since that time the whole system of paying the staff has been altered so much that the figures given in the papers before you would be misleading." Once more, "And you have no idea how we could compare the charges of 1887–88 (for militia, yeomanry, and volunteers) with the figures of 1874–75 from the Estimates?"—"No; the figures were not given at that time in the same form as they are now." "Could the War Office give the figures?"—"I daresay they could be given; but it would be very difficult to do so." "Do you mean to say that the War Office have no idea what the cost of these various services has been from year to year?"—"They have an idea; but it is not looked at from that point of view." "Surely you can keep a greater number of Volunteers for the same money if provisions are cheap, than you could at a time when provisions were dear; and if clothing is cheap (at that time it was dear) you could provide for a greater number than at a time when it was dear?"—"Yes; but that is not the way in which the War Office looks at the expenditure."*

* First Report, *P. P.* 216 of 1887, Q.s 447, 121, 442–5. In order to present to the Committee a clear and intelligible view of the expenditure of the last ten or fifteen years, the Accountant-General had entirely to alter the figures presented from time to time to Parliament. See also the explanatory statement of the Financial Secretary to the Admiralty, printed at the beginning of the Navy Estimates for 1888. By the new arrangements made for presenting the accounts "the House of Commons will for the first time have before it the total estimated expenditure upon each branch of the Naval Service, and information as to the items of which it is composed"!

Not only are the public accounts more or less unintelligible to the student, but their form has been so often changed that real comparison is rendered very difficult. I have therefore endeavoured as far as possible throughout the book and in the Budget Tables to reduce the accounts of the different years to one common denomination, in order to present to the reader the figures in a manner which will enable him, with some approach to accuracy, to compare the receipts and the expenditure of one year with another.

Some of the changes of account have already been mentioned, especially that occasioned by the Indian Army Charge falling on the English War Office.* But the steps taken in the time-worn process of confusion have been still greater since 1882. In this year and subsequently, the Army and Navy estimates, which, since 1848, had been voted as "gross" estimates, the so-called "extra receipts," arising from the sale of old stores, &c., being paid into the Exchequer as "miscellaneous receipts,"† were voted "net," the receipts being first taken in deduction of the estimates. The result has been apparently, though not really, to reduce the annual Army and Navy expenditure, the former by two or three hundred thousand pounds, the latter by some five or six hundred thousand pounds a year.

In 1884, the system of taking the Indian item in the Army estimates was once more changed, and the plan in vogue before 1861 re-adopted. That is to say, the receipts from India were no longer paid into the "Miscellaneous Revenue," but were paid over to the War Office, and went in reduction of the Army estimates—to an amount now of about £1,400,000 a year—thus, like the "extra receipts," disappearing from human ken.

* See *I. 284.* For change made in the Packet Service estimate, see *I. 39, n., 293, n.*; in charge for Coast Guards, *I. 182, n., 293, n.* See also *II. 45, n., 80, 102, 331, &c.*

† Some of the receipts, both in the case of the Army and Navy, have always been taken in reduction of the estimates. The so-called "extra receipts" are derived from the sale of old stores, and miscellaneous receipts of divers sorts, and contributions from Colonial and (for the Navy) from the Indian revenues. Previously to 1810 a portion of these Naval receipts were applied to the payment of salaries, pensions, &c. Between that year, and 1882, they were paid into the Exchequer as revenue. In 1822 the Naval receipts were appropriated in reduction of the Navy estimates; a system which had almost invariably prevailed in the case of the Ordnance and Army Departments. In 1848 another change was made, and the Army and Navy Departments were directed in future no longer to take the receipts from old stores in reduction of their votes, but to pay them over to the Exchequer. (See *P. I. and E.* II., pp. 489—490

For accuracy of comparison, I have in the Budget Tables at the end of this volume, and when quoting the figures of revenue or expenditure in the text, adjusted and stated these extra receipts, and the Indian charge and receipts, as far as possible, on the same basis: that is to say, instead of ceasing to include these receipts and disbursements in the revenue and the expenditure since 1882 and 1884 respectively, I have throughout included them.*

Yet another change—one of those changes which do so much to sour the temper of those who have to decipher the public accounts, or to compare year with year†—was made in 1882, in the mode of stating the revenue. Up to that year the so-called "fee stamps and patents" ‡ had been collected by the Inland Revenue Department, as distinguished from those collected and paid into the Miscellaneous revenue by various departments. But, in 1882, the Treasury, "not considering these fees as taxes, in the ordinary sense of the word," inasmuch as they were paid for services rendered or privileges conferred, decided that the receipts should no longer appear under the head of "stamps" in the tax revenue, but should be paid with the other fee stamps, direct into the Miscellaneous revenue.‖

In 1887 it was decided that in future the system of account as

*Annual Army Estimates*, *Finance Accounts*, Treasury Minutes, Report and Evidence of Public Accounts Committee, *P. P.* 113 of 1866 and *P. P.* 350 of 1881, &c.)

* The total amounts by which, on account of the "extra receipts" and the "Indian contribution," the figures of expenditure and revenue given in the text, and in the Budget Tables are greater than those given in the *Statistical Abstract* are as follows: in 1882, £810,000; 1883, £880,000; 1884, £2,000,000; 1885, £2,120,000; 1886, £2,138,400. The details will be found in the respective Budget Tables

† I feel that I am prejudiced in the matter, for I look back on the many weary hours, nay days and weeks, spent in poring over the public accounts, while trying to discover sums paltry in themselves but necessary for perfect accuracy. Nor, indeed, is it only paltry sums that were difficult to check, it is astonishing how ingeniously large sums often get hidden away in the public accounts.

‡ These fees collected by stamps (for 1886) were those received by the Law Courts, Police Courts, Court of Chancery, Admiralty, Bankruptcy Court, Land Commission, *London Gazette*, Civil Service Commission, &c., as well as for patents for invention (£106,000).

‖ I have in the Tables distinguished the "Fee-Stamps and Patents" from the other stamp revenue, as far back as I have been able accurately to trace them, namely, from 1871. And, in 1882 and subsequently, while placing these receipts under the head of Miscellaneous revenue, I have kept them distinct. The Tables will therefore show at a glance the change which was made. These fee-stamps and patents amounted in 1882 to £832,000, but the average amount is about £750,000, and to that extent the "Miscellaneous" revenue is swelled, and that for "stamps" diminished from 1882 onwards, as compared to years previous to that date.

between the Army and Navy should be entirely altered, and that instead of the expenditure on Naval ordnance appearing in the Army estimates, and the item for Army transport appearing in the Navy estimates, each branch of the service should, as seems but reasonable, bear its own burdens and be charged with its own expenditure. Up to 1825 part of the charge for Navy ordnance had been included in the Navy estimates. It was then, when amounting to £94,000, wholly transferred to the Ordnance estimates, and, after the amalgamation of the latter department with the War Office in 1855, the charge came on to the Army votes. The Army Ordnance Department supplied the Navy with the whole of its guns great and small, rifles, cutlasses, the fitting for the armaments, ammunition, and of late with torpedoes and gun-cotton.* On the other hand, the vote for the transport of troops and the victualling of the soldiers while on board, had been transferred from the Army to the Navy estimates in 1802. The cost of the transport of convicts—amounting to about £50,000 a year, was, up to 1848, when it was transferred to the Civil Service estimates, included in this vote.

Thirty years ago the two charges for Naval Ordnance and Army transport about balanced one another; the latter being £200,000 in 1857, the former probably about the same. Since that time the transport vote (except in time of war) has not increased. Short service necessitates more frequent reliefs, but the system of greater concentration of troops at home has in other ways diminished the necessity of relief. On the other hand the charge for Naval ordnance has steadily increased, and of late years has grown out of all proportion to the transport vote.† For 1887, for instance, the transport (peace) vote only amounted to £200,000, while the

* Only within the last year or two has the item of gunpowder appeared among the naval requisites to be provided by the Army Ordnance Department. The reason being, that at the close of the Great War, there was an enormous amount of gunpowder in stock, and the annual naval requirements being small, the amount required was taken from stock; and this tradition lasted until 1882. (See Evidence Committee on Army and Navy Estimates, *P. P.* 239 of 1887; Q. 5530, &c.; and generally, Appendix to Fifth Report, *P. P.* 259 I. pp. 84–154.)

† The transport vote (including transfer of prisoners of war and convicts) amounted in 1811 to as much as £5,176,000. After the war it fell to half a million, and gradually diminished, through years of peace, until it reached its minimum in 1853, when it was only £127,000. In 1855 it rose to 6¾ millions. In 1808 the charge for Naval Ordnance, then borne on the Navy estimates, was £821,500; after the war the charge fell to under £100,000. (*P. I. and E. Return*, pp. 695—6.)

Naval ordnance vote reached the formidable total of £1,700,000, from £300,000 of only ten years ago. Under the new Army reorganization scheme of 1887–88, a new Ordnance Department has been established as a separate business department, and thus a new item of charge appears for the first time in 1888.

Another change of account was made in 1887, when the receipts and expenditure depending on local advances disappeared from both sides of the account.* Lastly, if the Local Government Bill of 1888, and the financial arrangements depending on it, pass in anything like their original form, there will be a further very considerable change in the accounts. The local "grants in aid," granted from 1874 onwards, some £2,600,000 a year, are to disappear, and in lieu of them Imperial revenue from licenses and probate duty—to an amount of £4,700,000—is to be handed over to the new local authorities. The Imperial expenditure will thus be less by £2,600,000; the Imperial revenue less by £4,700,000 a year; and items of revenue and of expenditure hitherto included in the national account will disappear.†

* The amount in 1886 was, receipts £952,000 and disbursements £378,000.

† See *II. 186, n.*, for particulars of the proposed financial arrangements under the Local Government Bill, 1888.

# APPENDIX B.

## INTRODUCTION TO BUDGET TABLES.*

I HAD thought of including, and had prepared, a detailed account of the different items of revenue and expenditure (especially of the Army and Navy), of the mode in which the public accounts are kept, the revenue raised, the money voted, appropriated and audited, together with an account of the Exchequer and Treasury—the heart of the British Administration, as Lord Lansdowne called them in 1797.† But I came to the conclusion that such an account would not only unduly extend the work, but would be somewhat out of place in an historical study. I give, therefore, only a few explanations which seem necessary, in addition to the information contained in the text, for the right understanding of these Budget Tables.

Tables of the Budgets of the last thirty years alone are given; those of the previous fifteen years, as far back as 1842, will be found in Sir S. Northcote's *Twenty Years of Financial Policy*.

Enough has already been said in explanation of the DEBT CHARGE and the WAR SERVICES.

CONSOLIDATED FUND.—The "Other charges on the Consolidated Fund," are the items charged on the Consolidated Fund in addition to the interest, management, and redemption of the debt. These "Consolidated Fund" charges are specified annual charges, fixed by statute, and the House of Commons has no power of annually discussing the details such as they possess in

* "Budget is from the French bougette, little bag, or pedlar's pack, in which the Chancellor of the Exchequer kept his papers. The French adopted the term in the present century, about 1814." Dowell, ii. 140.

† Parnell, p. 106.

the case of the grants voted for the "supply services," the Army, Navy, Civil Service, Cost of Collection, Post Office and Telegraph Service. These latter are annually voted item by item, and can be discussed or curtailed at the pleasure of the House. They are thus brought under the direct control of the House of Commons —a very nominal control, however, as everyone knows.

By reason of their being voted along with the debt charges, these "other charges" on the Consolidated Fund are usually classed with the debt charge. But, as a matter of fact, with but minute exceptions, they constitute a portion of the administrative expenses of the country. I have, therefore, in the Budget Tables, and throughout the text, included them in the same category with the Civil Service expenditure, and classed the whole under the head of "Cost of Administration." These charges consist, first, of the Civil List (£385,000 a year), and Annuities (£156,000 a year), or Gifts to other Royal Personages; secondly, of Pensions for naval, military, political, civil, judicial, and diplomatic services, or pensions formerly charged on the Civil List of George III., George IV., and William IV., as well as Compensation for abolition of offices or for loss of patronage; * thirdly, of the Salaries of the judges and the other judicial administrators of the law; fourthly, of the salary of the Speaker, of the Lord Lieutenant of Ireland, and a few other officials.†

From time to time very considerable transferences of charges have been made from the Consolidated Fund to the Civil Service Estimates, in order to bring a larger number of items of expenditure more directly under Parliamentary cognizance and control.

Civil Service.—In addition to the transferences from the Consolidated Fund, there have been from time to time some

* As late as 1858 there were still included under the head of Ireland two compensation pensions for "loss of emoluments by the Union,"—"Jolly, doorkeeper of the House of Lords," £82 0*s.* 2*d.*, "Mary Anne Forster, now Tomes, housemaid," £18 0*s.* 10*d.* There was also a charge brought on to the English Exchequer at the same date, 1800, for "persons who suffered by the rebellion of 1798." In 1858 the amount thus charged was £129 5*s.* 2*d.* a year, and the charge continued up to 1884, when it amounted to £32 6*s.* 4*d.*, for two persons, both women; they died in 1885.

† A charge of £10,000 a year for "secret service" was up to 1886 included among the other items, when it was halved, and subsequently discontinued; a vote of £40,000 or £50,000 a year for "secret service" still, however, appears among the Civil Service Estimates.

transferences from other heads of expenditure to the Civil Service. Again, the system has gradually come into force, since 1849, of paying the whole of the fees and receipts of the different Civil Departments into the Exchequer, instead of, as formerly in many cases, taking them in reduction of the annual estimates. Of late, there has been, however, a slight tendency to revert somewhat to the old system. In 1886, while the gross grant for the Civil Service came to about eighteen millions, there were received by the different Departments, or collected by the Inland Revenue Department in the shape of stamps,* no less than £1,870,000 as a set-off. Twenty years before, while the grants amounted to £7,240,000, the receipts not already taken in deduction amounted to about £660,000.† The chief changes of account were made in 1868 and in 1881.

Collection of Revenue.—Previously to 1854, the cost of the collection of the revenue did not appear in the public accounts, the cost being first deducted, before the estimates were presented, the grants being voted "net." But throughout the text the cost of collection, except where expressly stated to the contrary, has been included in the figures of expenditure given.

Total Expenditure.—The expenditure, as given in these Tables, is the same (with certain adjustments already mentioned, *supra*, p. 325–6) as that given in the *Finance Accounts* and *Statistical Abstracts*, and represent, not the Audited accounts, but the Exchequer issues of the year. The audited accounts are not presented until many months later, and of necessity differ, sometimes very slightly, sometimes to a considerable degree, from the Exchequer issues.

Revenue.—The gross revenue of the Kingdom may be divided into four heads :—the "tax revenue," derived from the receipts from customs (collected by the Customs Department); excise, stamps, land tax, inhabited house duty, and income tax (all

* See *supra*, *p. 326*, "fee stamps."

† This is allowing £50,000 for "fee stamps," which, as far as I can make out, is about the correct amount for 1858 ; but the changes in nomenclature of the "stamps" have been considerable in the last thirty years. See *Finance Account*, 1858 (p. 27), as compared to *Finance Account*, 1886 (p. 40).

collected by the Inland Revenue Department); the net revenue derived from the rents and profits of the Crown estates, collected by Commissioners of Woods and Forests; the gross receipt from the business departments, the Post Office and Telegraph Service, collected by the Post Office Department; the Miscellaneous Receipts, neither in the nature of taxation nor profit, but chiefly payment for services rendered by the different Departments, collected partly by the Inland Revenue Department and partly by the Departments themselves.

A Customs Duty—customary payment—is one levied on an article imported into the country. Customs duties existed even before the Conquest; they were first levied by legislative enactment in the time of Edward I. An Excise Duty—excisum, a part cut off—is one levied on an article produced or manufactured in the country itself. Excise duties do not date further back than the time of the Commonwealth. Under our free-trade system, when a custom duty is charged, an excise duty is also charged on any similar article produced at home, and *vice versâ*.

The Miscellaneous Revenue.—This revenue—to take that of 1886 (exclusive of the Indian Contribution and the "Extra Receipts," which we have already discussed) — consists of a large number of small items of receipt collected by the different Departments, such as fees of all sorts, fines, rents, receipts, savings, profits, sales of stores, materials, forms, publications,* &c.; together with some small branches of the hereditary revenue; profits of issue of the Bank of England; profits on the savings banks; savings on grants and over-issues paid; a fractional amount of interest on an old Greek loan; conscience-money (£2,288); and casual receipts. The amounts vary from £317,000, received by the Post Office from the National Debt Commissioners on account of the charges of management of the Post Office Savings Bank, down to "Transit of Venus—old stores sold," 1*s.* 11*d.* In addition there are the "fee stamps and patents" (collected by the Inland Revenue Department), of which we have already spoken.

* The nation makes a considerable profit on its newspaper ventures. The *Dublin Gazette* brings in £800, the *Edinburgh Gazette* £2,925, and the *London Gazette* no less than £20,500 a year.

# APPENDIX C.

## BUDGET TABLES.

### 1858—86.

It should be noted that the figures of expenditure given in the text differ sometimes from those given in the Tables; the reason being that the former are usually adjusted in regard to deficiencies voted in subsequent years, and in other ways, in order that different years shall be placed, for purposes of comparison, on the same footing.

The Basis Estimate of revenue always includes the balance of remission or imposition of taxation falling on the current year in consequence of any changes made in the previous years.

## 1858–9. EXPENDITURE.

| Budget, April 19. | Estimate, April 19th, 1858. | Result. | Disraeli. |
|---|---|---|---|
| **Debt.** | | | |
| Debt Charge . } | 28,400,000 | 24,554,745 | |
| Termin. Annuities . } | | 3,972,739 | |
| | | 28,527,484 | |
| **War Services.** | | | |
| Army . . . . | 11,690,000 | 11,652,291 | |
| ,, *Deficiency*, 1857-8 | | 800,000 | |
| *Indian Establ.* . . | *60,000* | *60,000* | |
| Navy . . . . | 8,872,000 | 8,151,287 | |
| ,, *Deficiency*, 1857-8 | | 133,400 | |
| | | 20,796,978 | |
| **Administration.** | | | |
| Consolidated Fund . | 1,900,000 | 1,940,655 | |
| Civil Administration . | 7,000,000 | 7,169,473 | |
| | | 9,110,128 | |
| Collection of Rev. } | | 2,620,969 | |
| **Business Outlay.** } | 4,700,000 | 2,620,969 | |
| Post Office . . } | | 1,895,000 | |
| Packet Service . . | 988,000 | 930,800 | |
| | | 2,825,800 | |
| | 63,610,000 | 63,881,359 | |
| War Sinking Fund . | 1,500,000 | | |
| ,, Exchequer Bonds | 2,000,000 | | |
| Expenses of Chinese } | | 391,943 | |
| War (Naval) . . } | | | |
| Expenses of Russian } | | 390,580 | |
| War . . . . } | | | |
| | | 782,523 | |
| | **67,110,000** | **64,663,882** | |

The War Sinking Fund was abolished; and the War Exchequer Bonds renewed.
A deficiency of £407,000 on the Army was voted in 1859.

## REVENUE.

| | Estimate, April 19. | | Result. | |
|---|---|---|---|---|
| | Based on Taxation of Previous Year. | After Proposed Alterations. | | |
| **From Taxes.** | | | | |
| Customs . . . | 23,400,000 | | 24,117,943 | |
| Excise . . . . | 18,100,000 | 18,600,000 | 17,902,000 | Income tax *red.* from 7*d.* to 5*d.*, and taken at 5*d.* in the "basis" estimate. |
| Stamps . . . | 7,550,000 | 7,850,000 | 8,005,769 | |
| Land, House, and Assd. | 3,200,000 | | 3,162,000 | Spirit duty *inc.* |
| Income Tax . . . | 6,100,000 | | 6,683,587 | Some 'penny stamps' duties *imp.* |
| | | | 59,871,299 | |
| **From Business.** | | | | |
| Post Office . . . | 3,200,000 | | 3,200,000 | |
| | | | 3,200,000 | |
| Crown Lands (net) . | 270,000 | | 280,041 | |
| | | | 280,041 | |
| **Miscellaneous.** | | | | |
| Miscellaneous . } | 1,300,000 | | 872,433 | |
| Army and Navy Rec. } | | | 1,193,511 | |
| *Army, Indian Rec.* . | | | *60,000* | |
| | | | 2,125,944 | |
| | **63,120,000** | **63,920,000** | **65,477,284** | |
| *Surplus* . . . . | | 310,000 | 813,402 | |
| *Deficit* . . . . | 3,990,000 | | | |

## 1859—60. EXPENDITURE.

| Budget, July 18. | Estimate, July 18th, 1859. | Result. | Gladstone. |
|---|---|---|---|
| **Debt.** | | | |
| Debt Charge . . } | 28,600,000 | 24,318,342 | |
| Termin. Annuities . } | | 4,320,384 | |
| | | 28,638,726 | |
| **War Services.** | | | |
| Army . . . . | 13,240,000 | 13,589,537 | |
| „ *Deficiency*, 1858-9 | | 407,649 | |
| *Indian Establ.* . . | *60,000* | *60,000* | |
| Navy . . . . | 11,776,000 | 10,834,373 | |
| | | 24,891,559 | Debt charge *inc.*, certain dividends on the Long Annuities falling in upon 5th Jan. '60, necessitated a premature quarter's payment in the year. The original estimate for the Navy was £9,813 000. |
| **Administration.** | | | |
| Consolidated Fund . | 1,960,000 | 1,964,394 | |
| Civil Administration . | 7,825,000 | 7,721,519 | |
| | | 9,685,913 | |
| Collection of Rev. } | | 2,491,490 | |
| | 4,740,000 | 2,491,490 | |
| **Business Outlay.** } | | | |
| Post Office . . . } | | 1,947,058 | |
| Packet Service . . | 1,006,000 | 989,486 | |
| | | 2,936,544 | |
| | | 68,644,232 | |
| Chinese War . . . | | 858,057 | |
| | **69,207,000** | **69,502,289** | |

## REVENUE.

| | Estimate, July 18th. | | Result. | | |
|---|---|---|---|---|---|
| | Based on Taxation of Previous Year. | After Proposed Alterations. | | | |
| **From Taxes.** | | | | | |
| Customs . . . | 23,850,000 | | 24,460,902 | | |
| Excise . . . . | 18,530,000 | 19,310,000 | 20,361,000 | | |
| Stamps . . . | 8,100,000 | | 8,043,598 | | |
| Land, House, and Assd. | 3,200,000 | | 3,232,000 | | |
| Income Tax . . . | 5,600,000 | 9,940,000 | 9,596,106 | | Income tax *inc.* from 5*d.* to 9*d.*, and whole of additional 4*d.* levied on first half-year. Malt credits abridged six weeks. |
| | | | | 65,693,606 | |
| **From Business.** | | | | | |
| Post Office . . . | 3,250,000 | | 3,310,000 | | |
| | | | | 3,310,000 | |
| Crown Lands (net) . | 280,000 | | 284,479 | | |
| | | | | 284,479 | |
| **Miscellaneous.** | | | | | |
| Miscellaneous . } | | | *555*,199 | | |
| Army and Navy Rec. } | 1,530,000 | | 930,000 | | |
| *Army, Indian Rec.* } | | | *60,000* | | |
| Spanish Repayment . | | | 256,385 | | |
| | | | | 1,801,584 | |
| | **64,340,000** | | | **71,089,669** | |
| *Surplus* . . . . | | | | 1,587,380 | |
| *Deficit* . . . . | 4,867,000 | | | | |

## 1860–61. EXPENDITURE.

| Budget, Feb. 10. | Estimate. Feb. 10th, 1860. | Estimate. July 16th, 1860. | Result. | Gladstone. |
|---|---|---|---|---|
| **Debt.** | | | | |
| Debt Charge | 26,200,000 | | 24,284,386 | |
| Termin. Annuities | | | 1,946,633 | |
| | | | 26,231,019 | |
| **War Services.** | | | | |
| Army | 15,240,000 | | 14,910,000 | |
| *Indian Establ.* | *60,000* | | *60,000* | |
| Navy | 12,890,000 | | 13,331,668 | |
| | | | 28,301,668 | |
| **Administration.** | | | | |
| Consolidated Fund | 2,000,000 | | 2,296,430 | |
| Civil Administration | 7,500,000 | | 7,411,820 | |
| | | | 9,708,250 | |
| Collection of Rev. | | | 2,481,154 | |
| | 4,700,000 | 4,834,000 | 2,481,154 | |
| **Business Outlay.** | | | | |
| Post Office | | | 2,006,294 | |
| Packet Service | 1,010,000 | | 1,069,778 | |
| | | | 3,076,072 | |
| | 69,600,000 | | 69,798,163 | |
| Vote of Credit (China) | 500,000 | 3,350,000 | 2,600,000 | |
| Repayment to India | | 450,000 | 443,896 | 3,043,896 |
| | **70,100,000** | **73,534,000** | **72,842,059** | |
| Saving on Rev. Collec. | 86,000 | | | |
| *Fortifications* | | | *200,000* | |

The Army estimate includes £680,000, and the Navy estimate £464,000 on account of Chinese war.
The Navy expenditure includes a considerable overcharge from previous years.
The balance of the vote of credit unspent was reissued in 1861.

## REVENUE.

| | Estimate, Feb. 10. Based on Taxation of Previous Year. | Estimate, Feb. 10. After Proposed Alterations. | July 16th. | Result. | |
|---|---|---|---|---|---|
| **From Taxes.** | | | | | |
| Customs | 22,700,000 | 23,210,000 | 23,430,000 | 23,305,777 | |
| Excise | 19,170,000 | 19,811,000 | 21,361,000 | 19,435,000 | |
| Stamps | 8,000,000 | 8,295,000 | | 8,348,412 | |
| Land, House, and Assd. | 3,250,000 | 3,110,000 | | 3,127,000 | |
| Income Tax | 2,400,000 | 10,872,000 | | 10,923,816 | |
| | | | | 65,140,005 | |
| **From Business.** | | | | | |
| Post Office | 3,400,000 | | | 3,400,000 | |
| | | | | 3,400,000 | |
| Crown Lands (net) | 280,000 | | | 290,568 | |
| | | | | 290,568 | |
| **Miscellaneous.** | | | | | |
| Miscellaneous | | | | 521,101 | |
| Army and Navy Rec. | 1,500,000 | | | 632,000 | |
| *Army, Indian Rec.* | | | | *60,000* | |
| Spanish repayment | | | | 240,000 | |
| | | | | 1,453,101 | |
| | 60,700,000 | 70,478,000 | 72,248,000 | 70,283,674 | |
| *Surplus* | | 464,000 | | | |
| *Deficit* | 9,400,000 | | 1,286,000 | 2,558,000 | |

Income tax *inc.* fr
. 9*d.* to 10*d.*
Spirit duties equalized
8*s.* per gal. (see belo
Tea and sugar duties
imposed at old rates
Penny charge on go
inwards imposed.
Malt and hop cred
abridged.
Wine duty *red.*
Many small cust
duties *rep.* and oth
*red.*
Paper duty abolit
dropped.

In July, spirit duty
to 10*s.* per gal.

The surplus is reckon
after calculating
saving of £86,000
Revenue collection.

## 1861—2. EXPENDITURE.

| Budget, April 15. | Estimate, April 15th, 1861. | Result. | | Gladstone. |
|---|---|---|---|---|
| **Debt.** | | | | There were various supp. estimates this year which greatly confused the accounts. |
| Debt Charge . . } | 6,180,000 | 24,304,638 | | |
| Termin. Annuities . } | | 1,837,968 | | |
| | | | 26,142,606 | |
| **War Services.** | | | | The estimate for the Canadian Expedition (included in Army and Navy votes) was: Army, £609,400; Navy, £234,340, and substantially these amounts were spent. |
| Army . . . . | 15,026,000 | 15,134,239 | | |
| ,, *Deficiency*, 1859-60 | | 206,630 | | |
| *Indian Establ.* . . | *230,000* | *230,000* | | |
| Navy . . . . | 12,029,000 | 12,598,042 | | |
| | | | 28,168,911 | |
| **Administration.** | | | | The Navy expenditure also includes some expenditure on Chinese war, and £100,000 spent out of supp. estimate of £250,000 taken for "iron-plated" ships. |
| Consolidated Fund . | 1,930,000 | 1,945,572 | | |
| Civil Administration | 7,737,000 | 7,831,377 | | |
| | | | 9,776,949 | |
| Collection of Rev. } | | 2,568,243 | | The Indian Establishment charge increased this year. |
| **Business Outlay.** } | 4,780,000 | | 2,568,243 | |
| Post Office . . } | | 2,131,338 | | The saving of £25,000 (on paper duty) on the Stationery vote and on Establishment charges is reckoned in the surplus as finally estimated (April 15), but not in the "basis" surplus. In both cases the figures as given in the Budget are not quite accurately added up, and the surpluses are given at £1,923,000 and £408,000. |
| Packet Service . . | 995,000 | 891,921 | | |
| | | | 3,023,259 | |
| | 68,907,000 | | 69,679,968 | |
| Vote of Credit, China . | 1,000,000 | 1,230,000 } | | |
| Crimean War . . | | 53,431 } | 1,436,517 | |
| Stade Dues Redempt. . | | 153,086 } | | |
| | **69,907,000** | | **71,116,485** | |
| *Fortifications* . . | | | *970,000* | Of the China vote of credit £756,000 was a re-vote. |

## REVENUE.

| | Estimate, April 15. | | Result. | | |
|---|---|---|---|---|---|
| | Based on Taxation of Previous Years. | After Proposed Alterations. | | | |
| **From Taxes.** | | | | | |
| Customs . . . | 23,585,000 | 23,570,000 | 23,674,000 | | Paper duty *rep.* |
| Excise . . . . | 19,463,000 | 18,788,000 | 18,332,000 | | Income tax *red.* from 10*d.* to 9*d.* |
| Stamps . . . | 8,460,000 | | 8,590,945 | | |
| Land, House, and Assd. | 3,150,000 | | 3,160,000 | | Wine duty further *red.* |
| Income Tax . . . | 11,200,000 | 10,350,000 | 10,365,000 | | |
| | | | | 64,121,945 | |
| **From Business.** | | | | | |
| Post Office . . . | 3,520,000 | | 3,510,000 | | |
| | | | | 3,510,000 | |
| Crown Lands (net) . | 295,000 | | 295,000 | | |
| | | | | 295,000 | Indian receipts *inc.* this year. |
| **Miscellaneous.** | | | | | |
| Miscellaneous . } | | | 696,534 | | |
| Army and Navy Rec. } | 1,400,000 | | *555,000* | | |
| *Army, Indian Rec.* | | | *230,000* | | |
| Chinese Indemnity . | 750,000 | | 266,000 | | |
| | | | | 1,747,534 | |
| | **71,823,000** | **70,283,000** | | **69,674,479** | |
| *Surplus* . . . | 1,916,000 | 401,000 | | | |
| *Deficit* . . . . | | | | 1,442,006 | |

## 1862–3. EXPENDITURE.

| Budget, April 3. | Estimate, April 3rd, 1862. | Result. | Gladstone. |
|---|---|---|---|
| **Debt.** | | | |
| Debt Charge . . | 26,280,000 | 24,321,293 | |
| Termin. Annuities . | | 1,910,364 | |
| | | 26,231,657 | |
| **War Services.** | | | |
| Army . . . . | 15,094,000 | 15,358,790 | Army expenditure includes a small amount for New Zealand and Chinese war. |
| *Indian Establ.* . . | *906,000* | *906,000* | |
| Navy . . . . | 11,800,000 | 11,370,588 | |
| | | 27,635,378 | |
| **Administration.** | | | |
| Consolidated Fund . | 1,900,000 | 1,884,001 | Saving on Navy chiefly due to delay in ship-building by contract. |
| Civil Administration . | 7,890,000 | 8,076,924 | Indian Establishment charge further increased. |
| | | 9,960,925 | |
| Collection of Rev. | | 2,440,310 | No part of the vote of credit was spent, the small sum required being met out of the Army and Navy grants. |
| **Business Outlay.** | 4,754,000 | | |
| Post Office . . | | 2,113,151 | |
| Packet Service . . | 916,000 | 920,587 | |
| | | 3,033,738 | |
| | 69,540,000 | | |
| China Vote of Credit . | 500,000 | | |
| | **70,040,000** | **69,302,008** | |
| *Fortifications* . . | | *1,050,000* | |

## REVENUE.

| | Estimate, April 3. | | Result. | | |
|---|---|---|---|---|---|
| | Based on Taxation of Previous Year. | After Proposed Alterations. | | | |
| **From Taxes.** | | | | | |
| Customs . . . | 23,550,000 | 23,450,000 | 24,034,000 | | |
| Excise . . . . | 18,340,000 | 18,280,000 | 17,155,000 | | |
| Stamps . . . | 8,625,000 | 8,640,000 | 8,994,000 | | Commutation of hop duty into brewer's licence duty. |
| Land, House, and Assd. | 3,180,000 | | 3,150,000 | | Simplification of wine duties. |
| Income Tax . . . | 10,100,000 | | 10,567,000 | | |
| | | | | 63,900,000 | |
| **From Business.** | | | | | |
| Post Office . . . | 3,650,000 | | 3,650,000 | | ——— |
| | | | | 3,650,000 | |
| Crown Lands (net) . | 300,000 | | 300,000 | | |
| | | | | 300,000 | Indian receipts increased. |
| **Miscellaneous.** | | | | | No exact estimate was given for malt drawbacks, but surplus stated to be practically disposed of. |
| Miscellaneous . . | | | 787,225 | | |
| Army and Navy Rec. | 2,275,000 | | 690,000 | | |
| *Army Indian Rec.* | | | *1,058,000* | | |
| Chinese Indemnity . | 170,000 | | 212,335 | | |
| | | | | 2,753,560 | |
| | **70,190,000** | **70,045,000** | | **70,603,560** | |
| *Surplus* . . . | 150,000 | 5,000 | | 1,301,552 | |
| *Deficit* . . . . | | | | | |

## 1863—4. EXPENDITURE.

| Budget, April 16. | Estimate. April 16th, 1863. | Estimate. March, 1864. | Result. | | Gladstone. |
|---|---|---|---|---|---|
| **Debt.** | | | | | |
| Debt Charge . . } | 26,330,000 | | 24,219,945 | | |
| Termin. Annuities . } | | | 1,991,846 | | |
| | | | | 26,211,791 | |
| **War Services.** | | | | | |
| Army . . . . | 14,265,000 | 14,605,000 | 13,774,051 | | |
| *Indian Establ.* . . | *795,000* | *864,000* | *864,000* | | |
| Navy . . . . | 10,736,000 | | 10,821,596 | | |
| | | | | 25,459,647 | |
| **Administration.** | | | | | |
| Consolidated Fund . | 1,940,000 | | 1,972,181 | | Army supp. estimate for £409,000 included £243,000 for New Zealand, and £120,000 for increased Indian charge. |
| Civil Administration . | 8,042,000 | 8,167,000 | 7,702,628 | | |
| | | | | 9,674,809 | |
| Collection of Rev. } | | | 2,439,799 | | |
| **Business Outlay.** } | 4,721,000 | | | 2,439,799 | |
| Post Office . . } | | | 2,087,634 | | |
| Packet Service . . | 920,000 | | 922,082 | | |
| | | | | 3,009,716 | |
| | | | | 66,795,762 | |
| Kertch and Yenikale } | | | 85,925 } | 260,524 | |
| Prize Money . } | | | | | |
| Redem. of Scheldt Tolls | | | 174,599 } | | |
| | **67,749,000** | **68,283,000** | | **67,056,286** | |
| *Fortifications.* . . | | | | *820,000* | |

## REVENUE.

| | Estimate, April 16. Based on Taxation of Previous Year. | Estimate, April 16. After Proposed Alterations. | Result. | | |
|---|---|---|---|---|---|
| **From Taxes.** | | | | | |
| Customs . . . | 24,180,000 | 22,737,000 | 23,232,000 | | Income tax *red.* from 9*d.* to 7*d.*; amount and limit of abatement altered. Tea duty *red.* from 1*s.* 5*d.* to 1*s.* per lb. Tobacco duties slightly altered. Penny charge on goods inwards *rep.* |
| Excise . . . . | 17,600,000 | 17,658,000 | 18,207,000 | | |
| Stamps . . . | 9,000,000 | | 9,317,000 | | |
| Land, House, and Assd. | 3,160,000 | | 3,218,000 | | |
| Income Tax . . . | 10,500,000 | 8,675,000 | 9,084,000 | | |
| | | | | 63,058,000 | |
| **From Business.** | | | | | |
| Post Office . . . | 3,800,000 | | 3,810,000 | | |
| | | | | 3,810,000 | |
| Crown Lands (net) . | 300,000 | | 305,000 | | |
| | | | | 305,000 | |
| **Miscellaneous.** | | | | | |
| Miscellaneous . } | | | 804,217 | | |
| Army and Navy Rec. } | 2,500,000 | | 632,000 | | |
| *Army, Indian Rec.* | | | *1,165,000* | | |
| Chinese Indemnity . | 450,000 | | 434,747 | | |
| | | | | 3,035,964 | |
| | **71,490,000** | **68,280,000** | | **70,208,964** | |
| *Surplus* . . . . | 3,741,000 | 531,000 | | 3,152,678 | |
| *Deficit* . . . . | | | | | |

## 1864–5. EXPENDITURE.

| Budget, April 7. | Estimate, April 7th, 1864. | Result. | Gladstone. |
|---|---|---|---|
| **Debt.** | | | |
| Debt Charge . . } | 26,400,000 | 24,028,876 | |
| Termin. Annuities . } | | 2,340,522 | |
| | | 26,369,398 | |
| **War Services.** | | | |
| Army . . . . | 13,971,000 | 13,509,672 | |
| *Indian Establ.* . . | *873,000* | *873,000* | |
| Navy . . . . | 10,432,000 | 10,898,253 | |
| | | 25,280,925 | |
| **Administration.** | | | |
| Consolidated Fund . | 1,930,000 | 1,902,413 | |
| Civil Administration . | 7,628,000 | 7,257,727 | |
| | | 9,160,140 | A Navy supp. estimate for £280,000 was taken, chiefly for the purchase of the "steam-rams." |
| Collection of Rev. } | | 2,487,884 | |
| **Business Outlay.** } | 4,692,000 | 2,487,884 | |
| Post Office . . } | | 2,118,587 | The Army and Navy expenditure included a small sum for New Zealand war. |
| Packet Service . . | 883,000 | 870,673 | |
| | | 2,989,260 | |
| Allowance for variation in Navy and Miscellan. Estim. } | 80,000 | | |
| | | 66,287,607 | |
| Scheldt Tolls redempt. | | 174,599 | |
| | **66,889,000** | **66,462,206** | |
| *Fortifications* . . | | *620,000* | |

## REVENUE.

| | Estimate, April 7. | | Result. | | |
|---|---|---|---|---|---|
| | Based on Taxation of Previous Year. | After Proposed Alteration. | | | |
| **From Taxes.** | | | | | |
| Customs . . . | 23,150,000 | 21,820,000 | 22,572,000 | | Income tax *red.* from 7*d.* to 6*d.* |
| Excise . . . . | 18,030,000 | 18,020,000 | 19,558,000 | | Sugar duty *red.* from 13*s.* 10*d.* (standard) to 10*s.* 6*d.* a cwt. |
| Stamps . . . | 9,320,000 | 9,128,000 | 9,530,000 | | Fire Insurance duty *red.* |
| Land, House, and Assd. | 3,250,000 | | 3,292,000 | | |
| Income Tax . . . | 8,600,000 | 7,800,000 | 7,958,000 | | |
| | | | | 62,910,000 | |
| **From Business.** | | | | | |
| Post Office . . . | 3,950,000 | | 4,100,000 | | |
| | | | | 4,100,000 | |
| Crown Lands (net) | 310,000 | | 310,000 | | |
| | | | | 310,000 | |
| **Miscellaneous.** | | | | | |
| Miscellaneous . . } | | | 938,803 | | |
| Army and Navy Rec. } | 2,250,000 | | 709,000 | | |
| *Army Indian Rec.* } | | | *873,000* | | |
| Chinese Indemnity . | 500,000 | | 395,222 | | |
| Japanese Indemnity . | 100,000 | | 77,412 | | |
| | | | | 2,993,437 | |
| | **69,460,000** | **67,128,000** | | **70,313,437** | |
| *Surplus* . . . . | 2,570,000 | 238,000 | | 3,851,231 | |
| *Deficit* . . . | | | | | |

1865-6.] EXPENDITURE.

| Budget, April 27. | Estimate, April 27th, 1865. | Result. | | Gladstone. |
|---|---|---|---|---|
| **Debt.** | | | | |
| Debt Charge . . | 26,350,000 | 23,871,394 | | |
| Termin. Annuities . | | 2,361,894 | | |
| | | | 26,233,288 | |
| **War Services.** | | | | |
| Army . . . . | 13,480,000 | 12,936,450 | | |
| *Indian Estabt.* . . | *868,000* | *868,000* | | |
| Navy . . . . | 10,392,000 | 10,259,788 | | |
| | | | 24,064,238 | |
| **Administration.** | | | | |
| Consolidated Fund . | 1,900,000 | 1,883,675 | | |
| Civil Administration . | 7,650,000 | 7,520,986 | | |
| | | | 9,404,661 | The Vote of Credit for New Zealand was voted in order to cover expenditure met in this year and in previous years out of the Army and Navy grants. |
| Collect. of Rev. . | 4,657,000 | 2,499,603 | | |
| | | | 2,499,603 | |
| **Business Outlay.** | | | | |
| Post Office . . | | 2,102,333 | | |
| Packet Service . . | 842,000 | 845,404 | | |
| | | | 2,947,737 | |
| | | | 65,149,527 | |
| Vote of Credit for New Zealand War | | 764,829 | | |
| | | | 764,829 | |
| | **66,139,000** | | **65,914,356** | |
| *Fortifications* . . | | | *560,000* | |

REVENUE.

| | Estimate, April 27. | | Result. | | |
|---|---|---|---|---|---|
| | Based on Taxation of Previous Year. | After Proposed Alterations. | | | |
| **From Taxes.** | | | | | |
| Customs . . . | 22,775,000 | 20,907,000 | 21,276,000 | | Income Tax *red.* from 6*d.* to 4*d.* |
| Excise . . . . | 19,030,000 | | 19,788,000 | | Tea Duty *red.* from 1*s.* to 6*d.* per lb. |
| Stamps . . . | 9,550,000 | 9,290,000 | 9,560,000 | | Fire Insurance Duty further *red.* |
| Land, House, and Ass. | 3,350,000 | | 3,350,000 | | |
| Income Tax . . | 7,800,000 | 6,150,000 | 6,390,000 | | |
| | | | | 60,364,000 | |
| **From Business.** | | | | | |
| Post Office . . . | 4,250,000 | | 4,250,000 | | |
| | | | | 4,250,000 | |
| Crown Lands (net) . | 315,000 | | 320,000 | | |
| | | | | 320,000 | |
| **Miscellaneous.** | | | | | |
| Miscellaneous . | | | 749,580 | | Indian Army Receipts include £250,000 of arrears. |
| Army and Navy Rec. | 2,650,000 | | 585,000 | | |
| *Army Indian Rec.* . | | | *1,122,000* | | |
| Chinese Indemnity . | 450,000 | | 422,712 | | |
| | | | | 2,878,292 | |
| | **70,170,000** | **66,392,000** | | **67,812,292** | |
| *Surplus* . . . | 4,031,000 | 253,000 | | 1,897,936 | |
| *Deficit* . . . . | | | | | |

## 1866-7.] EXPENDITURE.

| Budget, May 3. | Estimate, May 3rd, 1866. | | Result. | | Gladstone. |
|---|---|---|---|---|---|
| **Debt.** | | | | | |
| Debt Charge . . | 26,140,000 | 26,642,000 | 23,703,614 | | The estimated Debt charge (May) increased by proposed creation of Terminable Annuities; but the scheme was dropped. |
| Termin. Annuities . | | | 2,378,164 | | |
| | | | | 26,081,778 | |
| **War Services.** | | | | | |
| Army . . . . | 13,285,000 | | 13,865,541 | | Army Supp. Estimate (£245,000) for converting "Enfield" rifles into breechloading "Sniders." |
| *Indian Establishment* | *810,000* | | *810,000* | | |
| Navy . . . . | 10,400,000 | | 10,676,101 | | |
| | | | | 25,351,642 | |
| **Administration.** | | | | | |
| Consolidated Fund . | 1,880,000 | | 1,894,331 | | |
| Civil Administration . | 7,886,000 | | 7,812,694 | | |
| | | | | 9,707,025 | |
| Collect. of Rev. . | | | 2,480,936 | | |
| | 5,003,000 | | | 2,480,936 | |
| **Business Outlay.** | | | | | |
| Post Office . . | | | 2,343,021 | | |
| Packet Service . . | 821,000 | | 815,994 | | |
| | | | | 3,159,015 | |
| | **66,225,000** | **66,727,000** | | **66,780,396** | |
| *Fortifications* . . | | | | *450,000* | |

## REVENUE.

| | Estimate, May 3. | | Result. | | |
|---|---|---|---|---|---|
| | Based on Taxation of Previous Year. | After Proposed Alterations | | | |
| **From Taxes.** | | | | | |
| Customs . . . | 21,400,000 | 20,923,000 | 22,303,000 | | Timber Duties *rep.* |
| Excise . . . . | 19,750,000 | 19,665,000 | 20,670,000 | | Pepper Duty *rep.* |
| Stamps . . . | 9,450,000 | | 9,420,000 | | Wine duty *red.* |
| Land, House, and Ass. | 3,400,000 | | 3,468,000 | | Stage Carriage Duty *red.* |
| Income Tax . . | 5,700,000 | | 5,700,000 | | |
| | | | | 61,561,000 | |
| **From Business.** | | | | | |
| Post Office . . . | 4,450,000 | | 4,470,000 | | |
| | | | | 4,470,000 | |
| Crown Lands (net) . | 325,000 | | 330,000 | | |
| | | | | 330,000 | |
| **Miscellaneous.** | | | | | |
| Miscellaneous . . | | | 708,878 | | |
| Army and Navy Rec. | 2,350,000 | | 786,800 | | |
| *Army Indian Rec.* | | | *810,000* | | |
| Chinese Indemnity . | 250,000 | | 250,184 | | |
| New Zealand Bonds . | 500,000 | | 517,705 | | |
| | | | | 3,073,567 | |
| | **67,575,000** | **67,013,000** | | **69,434,567** | |
| *Surplus* . . . | 1,350,000 | 286,000 | | 2,654,171 | |
| *Deficit* . . . . | | | | | |

## 1867—8. EXPENDITURE.

| Budget, April 4. | Estimate. April 4th, 1867. | | Result. | Disraeli. |
|---|---|---|---|---|
| **Debt.** | | | | |
| Debt Charge . . } | 26,000,000 | 26,750,000 | 23,124,480 | |
| Termin. Annuities . } | | | 3,447,270 | |
| | | | 26,571,750 | |
| **War Services.** | | | | |
| Army . . . . | 14,403,000 | | 14,568,582 | |
| *Indian Establ.* . . | *850,000* | | *850,000* | |
| Navy . . . . | 10,926,000 | | 11,168,949 | |
| | | | 26,587,531 | |
| **Administration.** | | | | |
| Consolidated Fund . | 1,900,000 | | 1,893,898 | |
| Civil Administration . | 8,203,000 | | 8,491,342 | |
| | | | 10,385,240 | |
| Collection of Rev. } | | | 2,481,152 | |
| | 5,045,000 | | 2,481,152 | |
| **Business Outlay.** } | | | | |
| Post Office . . . } | | | 2,402,051 | |
| Packet Service . . | 807,000 | | 808,518 | |
| | | | 3,210,569 | |
| | | | 69,236,242 | |
| Abyssinian War . . | | | 2,000,000 | |
| | **68,134,000** | | **71,236,242** | |
| *Fortifications* . . . | | | *530,000* | |

Debt charge *inc.* by creation of Terminable Annuities.
The Army estimate and expenditure include nearly half a million for increased pay.
The Army expenditure includes a small amount for Abyssinian war, and a deficiency of £48,500 for 1866.
The Navy expenditure ditto and ditto £90,620.
In 1868 deficiencies on 1867 to an amount of £774,000 were voted.
The vote of credit was taken in November.

## REVENUE.

| | Estimate, April 4. | | | Result. | |
|---|---|---|---|---|---|
| | Based on Taxation of Previous Year. | After Proposed Alterations. | Nov. | | |
| **From Taxes.** | | | | | |
| Customs . . . | 22,000,000 | | | 22,650,000 | Marine insurance *red.* to uniform rate of 3*d.* per cent. |
| Excise . . . . | 20,700,000 | | | 20,162,000 | |
| Stamps . . . | 9,550,000 | 9,340,000 | | 9,541,000 | Dog tax transferred to Excise. |
| Land, House, and Assd. | 3,500,000 | | | 3,509,000 | |
| Income Tax . . | 6,000,000 | | 6,840,000 | 6,177,000 | In November, income tax *inc.* from 4*d.* to 5*d.* |
| | | | | 62,039,000 | |
| **From Business.** | | | | | |
| Post Office . . . | 4,650,000 | | | 4,630,000 | |
| | | | | 4,630,000 | |
| Crown Lands (net) . | 340,000 | | | 345,000 | |
| | | | | 345,000 | |
| **Miscellaneous.** | | | | | |
| Miscellaneous . . } | | | | 800,687 | |
| Army and Navy Rec. } | 2,600,000 | | | 866,500 | * The surplus was given as £205,000, or £41,000 less than shown by the figures. |
| *Army, Indian Rec.* } | | | | *850,500* | |
| Japan Indemnity . | | | | 68,531 | |
| | | | | 2,586,218 | |
| | **69,340,000** | **69,130,000** * | **69,970,000** | **69,600,218** | |
| *Surplus* . . . . | 1,206,000 | 246,000 | | | |
| *Deficit* . . . . | | | *955,000* (On vote of credit.) | 1,636,024 | |

## 1868—9. EXPENDITURE.

| Budget, April 23. | Estimate. April 23rd, 1868. | Estimate. March, 1869. | Result. | Ward Hunt. |
|---|---|---|---|---|
| **Debt.** | | | | |
| Debt Charge . . } | 26,700,000 | | 22,667,170 | |
| Termin. Annuities . } | | | 3,951,156 | |
| | | | 26,618,326 | |
| **War Services.** | | | | |
| Army . . . . | 14,619,000 | | 14,163,000 | |
| *Indian Establ.* . . | *837,000* | | *837,000* | |
| Navy . . . . | 11,177,000 | | 11,000,000 | |
| „ *Deficiency*, 1867-8 | | | 366,545 | |
| | | | 26,366,545 | |
| **Administration.** | | | | |
| Consolidated Fund . | 1,865,000 | | 1,887,286 | |
| Civil Administration . | 9,173,000 | | 8,582,129 | |
| „ *Deficiency*, 1867-8 | | | 400,890 | |
| | | | 10,870,305 | |
| Collection of Rev. } | | | 2,576,164 | |
| **Business Outlay.** } | 4,968,000 | | 2,576,164 | |
| Post Office . . . } | | | 2,445,138 | |
| Packet Service . . | 1,089,000 | | 1,096,338 | |
| | | | 3,541,476 | |
| | 70,428,000 | | 69,972,816 | |
| Abyssinian Expedition | 3,000,000 | 6,600,000 | 5,000,000 | |
| | **73,428,000** | **77,028,000** | **74,972,816** | |
| *Fortifications* . . | | | *525,000* | |

The arrears of deficiencies paid came to £774,000. In 1869 deficiencies for 1868 to an amount of £218,600 were met.
£1,600,000 of vote of credit carried over to 1869.

## REVENUE.

| | Estimate, April 23. Based on Taxation of Previous Year. | Estimate, April 23. After Proposed Alterations. | Result. | |
|---|---|---|---|---|
| **From Taxes.** | | | | |
| Customs . . . . | 22,800,000 | | 22,424,000 | |
| Excise . . . | 20,330,000 | | 20,462,000 | |
| Stamps . . . . | 9,650,000 | | 9,218,000 | |
| Land, House, and Ass. | 3,540,000 | | 3,494,000 | |
| Income Tax . . | 6,900,000 | 8,700,000 | 8,618,000 | |
| | | | 64,216,000 | |
| **From Business.** | | | | |
| Post Office . . . | 4,650,000 | | 4,660,000 | |
| | | | 4,660,000 | |
| Crown Lands (net) . | 350,000 | | 360,000 | |
| | | | 360,000 | |
| **Miscellaneous.** | | | | |
| Miscellaneous . } | | | 1,619,692 | |
| Army and Navy Rec. } | 3,130,000 | | 899,300 | |
| *Army, Indian Rec.* } | | | *837,000* | |
| | | | 3,355,992 | |
| | **71,350,000** | **73,150,000** | **72,591,992** | |
| *Surplus* . . . | | | | |
| *Deficit* . . . . | 2,078,000 | 278,000 | 2,380,824 | |

Income tax *inc.* from 5*d.* to 6*d.* In the basis of estimate the tax was taken at 4*d.*, the penny added in November, '67 being excluded. Thus, in the Budget, the tax was taken at an increase of 2*d.*

A change of accounts was introduced, swelling the expenditure and the miscellaneous revenue by about half a million a year.
The realized deficiency is exclusive of the £1,600,000 of war debt carried over to 1869.
£1,000,000 Exchequer Bonds were issued in anticipation of income tax which could not be collected in year, making nominal surplus of April 23, of £722,000 instead of deficit.

## 1869—70. EXPENDITURE.

| Budget, April 8. | Estimate, April 8th, 1869. | Result. | Lowe. |
|---|---|---|---|
| **Debt.** | | | |
| Debt Charge . . } | 26,700,000 | 22,687,712 | |
| Termin. Annuities . } | | 4,365,848 | |
| | | 27,053,560 | |
| **War Services.** | | | |
| Army . . . . | 13,513,000 | 12,848,400 | |
| *Indian Establ.* . . | *717,000* | *717,000* | |
| Navy . . . . | 9,997,000 | 9,757,290 | |
| | | 23,322,690 | |
| **Administration.** | | | |
| Consolidated Fund . | 1,700,000 | 1,730,133 | Mr. Lowe took the whole unpaid balance of the Abyssinian vote of credit, £4,600,000, into account in his estimate, and not only the £1,600,000; making the original surplus £32,000 instead of one of £3,032,000, and the surplus after the alterations, £,442,000 instead of £3,442,000. |
| Civil Administration . | 9,530,000 | 9,085,914 | |
| *Deficiency*, 1868-9 . | . | 217,100 | |
| | | 11,033,147 | |
| Collect. of Rev. } | | 2,557,802 | |
| **Business Outlay.** } | 4,976,000 | 2,557,802 | |
| Post Office . . } | | 2,316,000 | |
| Packet Service . . | 1,090,000 | 1,221,553 | |
| Telegraphs . . . | | 60,000 | |
| | | 3,597,553 | |
| | 68,223,000 | 67,564,752 | |
| Abyssinian Expedition | 1,600,000 | 1,300,000 | |
| | **69,823,000** | **68,864,752** | |
| *Fortifications* . . | | *200,000* | |

## REVENUE.

| | Estimate, April 8. | | Result. | |
|---|---|---|---|---|
| | Based on Taxation of Previous Year. | After Proposed Alterations. | | |
| **From Taxes.** | | | | |
| Customs . . . | 22,450,000 | 21,650,000 | 21,529,000 | Income tax *red.* from 6*d.* to 5*d.*, but reform of collection to produce £1,800,000. |
| Excise . . . . | 20,450,000 | *20,630,000 | 21,763,000 | Tax on corn *rep.* |
| Stamps . . . | 9,350,000 | *8,870,000 | 9,248,000 | Fire insurance duty *rep.* |
| Land, House, and Ass. | 3,550,000 | *4,500,000 | 4,500,000 | Assessed taxes *rep.* and Excise licences substituted. |
| Income Tax . . . | 8,800,000 | 9,360,000 | 10,044,000 | System of collection of income tax, land, house, and assessed taxes, as altered, estimated to produce, together, £3,350,000 in 1869. |
| | | | 67,084,000 | |
| **From Business.** | | | | |
| Post Office . . . | 4,880,000 | | 4,670,000 | |
| Telegraph Service . . | | | 100,000 | |
| | | | 4,770,000 | |
| Crown Lands (net) . | 375,000 | | 375,000 | |
| | | | 375,000 | |
| **Miscellaneous.** | | | | |
| Miscellaneous . } | | | 1,453,752 | |
| Army and Navy Rec. } | 3,000,000 | | 1,034,500 | |
| *Army Indian Rec.* } | | | *717,000* | |
| | | | 3,205,252 | |
| | **72,855,000** | **73,265,000** | **75,434,252** | |
| *Surplus* . . . | 3,032,000 | 3,442,000 | †6,569,500 | |
| *Deficit* . . . . | | | | |

* These figures are not given in the Budget, and are the nearest estimate I can form.

† See note above. Against the realized surplus was put the £3,000,000 of Abyssinian war charge unmet in 1868, reducing the surplus from £6,570,000 to £3,570,000.

## 1870–71. EXPENDITURE.

| Budget, April 11. | Estimate. April 11th, 1870. | | Result. | | Lowe. |
|---|---|---|---|---|---|
| **Debt.** | | | | | |
| Debt Charge . . } | 26,650,000 | 26,840,000 | 22,447,700 | | |
| Termin. Annuities . } | | | 4,378,737 | | |
| | | | | 26,826,437 | |
| **War Services.** | | | | | |
| Army . . . . | 12,285,000 | | 12,740,400 | | |
| *Indian Establ.* . . | *690,000* | | *690,000* | | |
| Navy . . . . | 9,251,000 | | 9,456,641 | | |
| | | | | 22,887,041 | |
| **Administration.** | | | | | |
| Consolidated Fund . | 1,820,000 | | 1,643,196 | | |
| *Courts Chancery, &c.* } | | | 473,000 | | |
| *repayments* . . } | | | | | |
| Civil Administration . | 9,990,000 | | 9,849,315 | | |
| | | | | 11,962,511 | |
| Collect. of Rev. } | | | 2,573,128 | | |
| | 4,960,000 | | | 2,573,128 | |
| **Business Outlay.** } | | | | | |
| Post Office . . } | | | 2,373,000 | | |
| Packet Service . . | 1,107,000 | | 1,214,149 | | |
| Telegraphs . . . | 360,000 | | 362,274 | | |
| | | | | 3,949,423 | |
| | | | | 68,198,540 | |
| Vote of Credit . . | | | | 1,350,000 | |
| | 67,113,000 | 67,303,000 | | 69,548,540 | |
| *Fortifications* . . . | | | | *150,000* | |

The Army expenditure includes the expenditure on account of Abyssinia, Red River Expeditions, and war in Europe.
The Navy expenditure swelled by £183,000 in consequence of a change in the system of payment.
A special expenditure in connection with a change made in the system of accounts of the Courts of Chancery and Bankruptcy.
The vote of credit for £2,000,000 was taken in August.

## REVENUE.

| | Estimate, April 11. | | Result. | | |
|---|---|---|---|---|---|
| | Based on Taxation of Previous Year. | After Proposed Alterations. | | | |
| **From Taxes.** | | | | | |
| Customs . . . | 21,650,000 | 19,300,000 | 20,191,000 | | Income tax *red.* from 5*d.* to 4*d.* |
| Excise . . . . | 21,640,000 | 21,660,000 | 22,788,000 | | Sugar duty *red.* by one-half. from 10*s.* 6*d.* per cwt. (standard) to 5*s.* 3*d.* per cwt. |
| Stamps . . . | 8,700,000 | 8,589,000 | 9,007,000 | | |
| Land and House . . | 2,850,000 | | 2,725,000 | | |
| Income Tax . . | 7,600,000 | 6,350,000 | 6,350,000 | | |
| | | | | 61,061,000 | |
| **From Business.** | | | | | Excise licences and impressed stamp on newspapers *rep.* |
| Post Office . . . | 4,900,000 | 4,775,000 | 4,770,000 | | Gun tax of 10*s. imp.* |
| Telegraphs . . . | 675,000 | | 500,000 | | |
| | | | | 5,270,000 | |
| Crown Lands (net) . | 385,000 | | 385,000 | | |
| | | | | 385,000 | |
| **Miscellaneous.** | | | | | |
| Miscellaneous . . } | | | 1,437,546 | | |
| Army and Navy Rec. } | 3,050,000 | | 1,081,700 | | |
| *Army Indian Rec.* } | | | *687,800* | | |
| Chinese Indemnity . | | | 22,174 | | |
| | | | | 3,229,220 | |
| | 71,450,000 | 67,634,000 | | 69,945,220 | * After vote of credit for two millions taken. |
| *Surplus* . . . | 4,337,000 | 331,000 | | 396,680 | |
| *Deficit* . . . . | | *1,852,000 (August) | | | |

## 1871–2. EXPENDITURE.

| Budget, April 20. | Estimate, April 20th, 1871. | Result. | | Lowe. |
|---|---|---|---|---|
| **Debt.** | | | | |
| Debt Charge . . } | 26,910,000 | 22,326,895 | | |
| Termin. Annuities . } | | 4,512,706 | | |
| | | | 26,839,601 | |
| **War Services.** | | | | |
| Army . . . . | 15,308,000 | 14,977,580 | | |
| Purchase . . . | 600,000 | 340,000 | | |
| *Indian Establ.* . . | *544,000* | *544,000* | | |
| Navy . . . . | 9,756,000 | 9,900,486 | | |
| | | | 25,762,066 | |
| **Administration.** | | | | |
| Consolidated Fund . . | 1,820,000 | 1,797,475 | | |
| Civil Administration . | 10,726,000 | 10,362,818 | | Army estimate included £100,000 balance expenditure from vote of credit of 1870, subsequently re-voted. |
| | | | 12,160,293 | |
| Collect. of Rev. } | | 2,578,094 | | |
| **Business Outlay.** } | 5,076,000 | | 2,578,094 | Both Army and Navy expenditure include a small balance on account of the Abyssinian war. |
| Post Office . . } | | 2,455,692 | | |
| Packet Service . . | 1,148,000 | 1,138,700 | | |
| Telegraph Service . | 420,000 | 420,000 | | |
| ,, *Deficy.* 1870-1 | | 34,477 | | |
| | | | 4,048,869 | |
| | | | 71,388,923 | |
| Vote of Credit . . | | | 101,097 | |
| | **72,308,000** | | **71,490,020** | |
| *Fortifications* . . | | | *370,000* | |

## REVENUE.

| | Estimate, April 20. | | | Result. | | |
|---|---|---|---|---|---|---|
| | Based on Taxation of Previous Year. | After Proposed Alterations. | April 27th, 1871. | | | |
| **From Taxes.** | | | | | | |
| Customs . . . | 20,100.000 | | | 20,326,000 | | Original Budget proposals dropped. Income tax *inc.* from 4*d.* to 6*d.* (April 27th.) |
| Excise . . . . | 22,420,000 | 22,970,000 | 22,420,000 | 23,326,000 | | |
| Stamps . . . } | 8,750,000 | 9,050,000 | 8,750,000 | 9,120,000 | | |
| Fee Stamps&Patents } | | | | 652,000 | | |
| Land and House . . | 2,330,000 | | | 2,330,000 | | |
| Income Tax . . . | 6,100,000 | 8,050,000 | 8,820,000 | 9,084,000 | | |
| | | | | | 64,838,000 | |
| **From Business.** | | | | | | |
| Post Office . . . | 4,670,000 | | | 4,680,000 | | |
| Telegraph Service . . | 750,000 | | | 755,000 | | |
| | | | | | 5,435,000 | |
| Crown Lands (net) . | 375,000 | | | 375,000 | | |
| | | | | | 375,000 | |
| **Miscellaneous.** | | | | | | A sum of £850,000 was repaid on account of savings in the last two years on Army and Navy grants, and applied to reduction of votes of credit |
| Miscellaneous. . } | | | | 1,591,415 | | |
| Army and Navy Rec. } | 4,100,000 | | | 1,177,800 | | |
| *Army Indian Rec.* } | | | | *441,100* | | |
| Abyss. Issues repaid } | | | | 850,000 | | |
| | | | | | 4,060,315 | |
| | **69,595,000** | **72,395,000** | **72,315,000** | | **74,708,315** | |
| *Surplus* . . . . | | 87,000 | | | 3,218,295 | |
| *Deficit* . . . . | 2,713,000 | | 7,000 | | | |

## 1872–3. EXPENDITURE.

| Budget, March 25. | Estimate, March 25th, 1872. | Result. | Lowe. |
|---|---|---|---|
| **Debt.** | | | |
| Debt Charge . . } | 26,830,000 | 22,265,306 | |
| Termin. Annuities . } | | 4,539,547 | |
| | | 26,804,853 | |
| **War Services.** | | | |
| Army . . . . | 13,828,000 | 13,470,700 | |
| Purchase . . . | 853,000 | 946,500 | |
| *Indian Establ.* . . | *996,000* | *996,000* | |
| Navy . . . . . | 9,508,000 | 9,543,000 | |
| | | 24,956,200 | |
| **Administration.** | | | |
| Consolidated Fund . | 1,780,000 | 1,574,954 | |
| Civil Administration . | 10,652,000 | 10,175,185 | |
| | | 11,750,139 | |
| Collection of Rev. | 2,621,000 | 2,594,302 | |
| | | 2,594,302 | |
| **Business Outlay.** | | | |
| Post Office . . . . | 2,610,000 | 2,634,130 | |
| Packet Service . . | 1,135,000 | 1,133,058 | |
| Telegraph Service . | 500,000 | 670,000 | |
| ,, *Deficy.* 1871-2 | | 171,766 | |
| | | 4,608,954 | |
| | **71,313,000** | **70,714,448** | |
| *Fortifications* . . | | *308,000* | |

## REVENUE.

| | Estimate, March 25. | | Result. | |
|---|---|---|---|---|
| | Based on Taxation of Previous Year. | After Proposed Alterations. | | |
| **From Taxes.** | | | | |
| Customs . . . | 20,300,000 | 20,080,000 | 21,033,000 | |
| Excise . . . . | 23,320,000 | 23,310,000 | 25,785,000 | Income tax *red.* from 6*d.* to 4*d.* Limit and amount of abatement altered. Coffee and chicory duty each *red.* by one-half. |
| Stamps . . } | 9,700,000 | | 9,248,000 | |
| Fee Stamps & Patents } | | | 699,000 | |
| Land and House . | 2,350,000 | 2,300,000 | 2,337,000 | |
| Income Tax . . . | 9,950,000 | 6,940,000 | 7,500,000 | |
| | | | 66,602,000 | |
| **From Business.** | | | | |
| Post Office . . . | 4,770,000 | | 4,820,000 | |
| Telegraph Service . . | 850,000 | | 1,015,000 | |
| | | | 5,835,000 | |
| Crown Lands (net) . | 375,000 | | 375,000 | |
| | | | 375,000 | |
| **Miscellaneous.** | | | | |
| Miscellaneous . } | 3,300,000 | | 1,910,870 | |
| Army and Navy Rec. } | | | 889,500 | |
| *Army Indian Rec.* } | | | *996,400* | |
| | | | 3,796,770 | |
| | **74,915,000** | **71,625,000** | **76,608,770** | |
| *Surplus* . . . . | 3,602,000 | 312,000 | 5,894,322 | |
| *Deficit* . . . . | — | | | |

## 1873–4. EXPENDITURE.

| Budget, April 7. | Estimate, April 7th, 1873. | Result. | Lowe. |
|---|---|---|---|
| **Debt.** | | | |
| Debt Charge . . } | 26,750,000 | 22,120,451 | |
| Termin. Annuities . } | | 4,586,274 | |
| | | 26,706,725 | |
| **War Services.** | | | |
| Army . . . . | 13,900,000 | 13,909,990 | |
| Purchase . . . | 842,000 | 713,974 | |
| *Indian Establ.* . . | *883,000* | *883,000* | Army expenditure includes a small sum for the Ashantee war. |
| Navy . . . . | 9,873,000 | 10,279,899 | |
| | | 25,420,863 | |
| **Administration.** | | | |
| Consolidated Fund . | 1,570,000 | 1,603,085 | |
| Civil Administration . | 11,068,000 | 11,128,180 | |
| | | 12,731,265 | |
| Collection of Rev. | 2,661,000 | 2,676,015 | |
| | | 2,676,015 | |
| **Business Outlay.** | | | |
| Post Office . . . | 2,745,000 | 2,732,341 | |
| Packet Service . . | 1,130,000 | 1,139,470 | |
| Telegraph Service . | 815,000 | 858,000 | |
| „ *Deficy.* 1872-3 | | 204,956 | |
| | | 4,934,767 | |
| | 71,871,000 | 72,469,635 | |
| Ashantee War . . | | 800,000 | |
| Alabama Award . . | 1,600,000 | 3,196,875 | |
| | **73,471,000** | **76,466,510** | |
| *Fortifications* . . | | *500,000* | |

The Navy expenditure includes £105,000 for the Zanzibar Slavery Expedition.

A deficiency of £240,000 for the Navy was voted in 1874.

In the estimate only £1,600,000 of the Alabama award of £3,200,000 was included, but the surplus enabled the whole of it to be met in the year.

## REVENUE.

| | Estimate, April 7. | | Result. | |
|---|---|---|---|---|
| | Based on Taxation of Previous Year. | After Proposed Alterations. | | |
| **From Taxes.** | | | | |
| Customs . . . | 21,033,000 | 19,603,000 | 20,339,000 | |
| Excise . . . . | 25,747,000 | | 27,172,000 | |
| Stamps . . } | 10,050,000 | | 9,828,000 | |
| Fee Stamps & Patents } | | | 722,000 | |
| Land and House . | 2,350,000 | | 2,324,000 | |
| Income Tax . . . | 7,000,000 | 5,575,000 | 5,691,000 | |
| | | | | 66,076,000 |
| **From Business.** | | | | |
| Post Office . . . | 5,012,000 | | 5,792,000 | |
| Telegraph Service . . | 1,220,000 | | 1,210,000 | |
| | | | | 7,002,000 |
| Crown Lands (net) . | 375,000 | | 375,000 | |
| | | | | 375,000 |
| **Miscellaneous.** | | | | |
| Miscellaneous . . } | | | 2,040,957 | |
| Army and Navy Rec. } | 3,830,000 | | 958,700 | |
| *Army Indian Rec.* } | | | *883,000* | |
| | | | | 3,882,657 |
| | **76,617,000** | **73,762,000** | | **77,335,657** |
| *Surplus* . . . | 3,146,000 | 291,000 | | 869,147 |
| *Deficit* . . . . | | | | |

Income tax *red.* from 4*d.* to 3*d.*

Sugar duty *red.* from 5*s.* 3*d.* (standard) to 2*s.* 8*d.* a cwt.

A sum of £890,000 improperly kept back from the Post Office receipts in past years and applied to the Telegraph Capital Account, re-voted this year, £652,000 to Post Office Revenue and £148,000 to Miscellaneous.

The original surplus over the ordinary expenditure was £4,746,000; but £1,600,000 of Alabama award was met in this year, reducing the available surplus to £3,146,000.

## 1874–5. EXPENDITURE.

| Budget, April 16. | Estimate. April 16, 1874. | | Result. | | Northcote. |
|---|---|---|---|---|---|
| **Debt.** | | | | | |
| Debt Charge . . } | 26,700,000 | 27,145,000 | 21,920,825 | | |
| Termin. Annuities . } | | | 5,173,654 | | |
| | | | | 27,094,479 | |
| **War Services.** | | | | | |
| Army . . . . | 13,958,000 | | 13,992,434 | | |
| Purchase . . . | 658,000 | | 579,115 | | |
| *Indian Establ.* . . | *527,000* | | *527,000* | | |
| Navy . . . . | 10,180,000 | | 10,440,104 | | Debt charge *inc.* by the creation of Terminable Annuities against the interest received on Local Loans. |
| ,, *Deficiency*, 1873-4 | | | 240,300 | | |
| | | | | 25,778,953 | |
| **Administration.** | | | | | |
| Consolidated Fund . . | 1,580,000 | | 1,583,589 | | A deficiency of £238,000 on the Navy was voted in 1875. |
| Civil Administration . | 11,287,000 | 12,297,000 | 11,974,128 | | |
| | | | | 13,557,717 | The original estimate of the subsidy to Local Rates was £1,010,000 ; the actual payments in the year were £512,000. |
| Collection of Rev. | 2,694,000 | | 2,694,908 | | |
| | | | | 2,694,908 | |
| **Business Outlay.** | | | | | |
| Post Office . . . | 2,882,000 | | 2,911,917 | | |
| Packet Service . . | 999,000 | | 972,000 | | |
| Telegraph Service . | 938,000 | | 1,083,276 | | |
| ,, *Defic.* 1873-4 | | | 109,790 | | |
| | | | | 5,076,983 | |
| | 72,403,000 | 73,858,000 | | 74,203,040 | |
| Vote of Credit for } Ashantee War . } | 100,000 | 100,000 | | 125,000 | |
| | **72,503,000** | **73,958,000** | | **74,328,040** | |
| *Fortifications* . . | | | | *600,000* | |

## REVENUE.

| | Estimate, April 16. | | Result. | | |
|---|---|---|---|---|---|
| | Based on Taxation of Previous Year. | After Proposed Alterations. | | | |
| **From Taxes.** | | | | | |
| Customs . . . | 20,740,000 | 18,740,000 | 19,289,000 | | Income tax *red.* from 3*d.* to 2*d.* |
| Excise . . . . | 28,090,000 | 27,610,000 | 27,395,000 | | Sugar duty *rep.* |
| Stamps . . . . } | 10,880,000 | | 9,797,000 | | Horse, race-horse, and horse-dealers' duty *rep.* |
| Fee Stamps & Patents } | | | 743,000 | | |
| Land and House . | 2,360,000 | | 2,440,000 | | |
| Income Tax . . . | 5,500,000 | 3,960,000 | 4,306,000 | | |
| | | | | 63,970,000 | |
| **From Business.** | | | | | |
| Post Office . . . | 5,300,000 | | 5,670,000 | | |
| Telegraph Service . . | 1,250,000 | | 1,120,000 | | |
| | | | | 6,790,000 | |
| Crown Lands (net) . | 375,000 | | 385,000 | | |
| | | | | 385,007 | The interest on Local Loans was brought into account as Miscellaneous Revenue. |
| **Miscellaneous.** | | | | | |
| Miscellaneous . } | 3,500,000 | | 1,918,946 | | |
| Army and Navy Rec. | | | 799,000 | | |
| *Army Indian Rec.* } | | | *523,500* | | |
| Int. on Local Loans, &c. | | 450,000 | 466,896 | | |
| Japan Indemnity . | | | 68,531 | | |
| | | | | 3,776,873 | |
| | **77,995,000** | **74,425,000** | | **74,921,873** | |
| *Surplus* . . . | 5,492,000 | 467,000 | | 593,833 | |
| *Deficit* . . . . | | | | | |

## 1875—6. EXPENDITURE.

| Budget, April 15. | Estimate. April 15th, 1875. | | Result. | | Northcote. |
|---|---|---|---|---|---|
| **Debt.** | | | | | |
| Debt Charge . . | 27,215,000 | 27,400,000 | 21,755,363 | | |
| Termin. Annuities . | | | 5,364,487 | | |
| New Sinking Fund . | | | 280,150 | | |
| Local Loans, &c. | | 70,000 | 43,750 | | |
| | | | | 27,443,750 | |
| **War Services.** | | | | | |
| Army . . . . | 13,843,000 | | 13,742,469 | | |
| Purchase . . . | 638,000 | | 501,638 | | |
| *Indian Establ.* . . | *835,000* | | *835,000* | | |
| Navy . . . . | 10,785,000 | | 10,825,194 | | |
| „ *Deficiency*, 1874-5 | | | 238,255 | | |
| | | | | 26,142,556 | |
| **Administration.** | | | | | |
| Consolidated Fund . | 1,590,000 | | 1,557,090 | | |
| Civil Administration . | 12,656,000 | | 13,119,365 | | |
| | | | | 14,676,455 | |
| Collection of Rev. | 2,694,000 | | 2,694,393 | | |
| | | | | 2,694,393 | |
| **Business Outlay.** | | | | | |
| Post Office . . . | 3,036,000 | | 2,982,000 | | |
| Packet Service . . | 878,000 | | 884,054 | | |
| Telegraph Service . | 1,098,000 | | 1,022,000 | | |
| | | | | 4,888,054 | |
| | | | | 75,845,208 | |
| Bal. on Suez Can. Shar. | | | 76,565 | | |
| Adjt. Army & Indian Accounts . . | | | 500,000 | | |
| Localization of Military Forces. . | | | 200,000 | | |
| | | | | 776,565 | |
| | **75,268,000** | **75,523,000** | | **76,621,773** | |
| *Fortifications* . . | | | | *250,000* | |

## REVENUE.

| | Estimate, April 15. | | Result. | | |
|---|---|---|---|---|---|
| | Based on Taxation of Previous Year. | After Proposed Alterations. | | | |
| **From Taxes.** | | | | | |
| Customs . . . | 19,500,000 | | 20,020,000 | | Practically no change in taxation. |
| Excise . . . . | 27,800,000 | 27,740,000 | 27,626,000 | | |
| Stamps . . . | 10,600,000 | | 10,212,000 | | |
| Fee Stamps & Patents | | | 790,000 | | |
| Land and House . | 2,450,000 | | 2,496,000 | | |
| Income Tax . . . | 3,900,000 | | 4,109,000 | | |
| | | | | 65,253,000 | |
| **From Business.** | | | | | |
| Post Office . . . | 5,750,000 | | 5,950,000 | | |
| Telegraph Service . . | 1,200,000 | | 1,245,000 | | |
| | | | | 7,195,000 | |
| Crown Lands (net) . | 385,000 | | 395,000 | | |
| | | | | 395,000 | |
| **Miscellaneous.** | | | | | |
| Miscellaneous . . | | | 2,104,386 | | The Miscellaneous receipts were swelled by £253,000 and £139,000 from savings on Abyssinian and on Ashantee votes of credit respectively. |
| Army and Navy Rec. | 4,100,000 | | 807,500 | | |
| *Army Indian Rec.* | | | *835,000* | | |
| Int. on Local Loans, &c. | | | 541,807 | | |
| | | | | 4,288,693 | |
| | **75,685,000** | **75,625,000** | | **77,131,693** | |
| *Surplus* . . . | 417,000 | 102,000 | | 509,920 | |
| *Deficit* . . . . | | | | | |

The New Sinking Fund was established and the debt charge raised by £185,000.
The interest on Exchequer Bonds issued to meet advances to Local Bodies included in debt charge.
The Indian non-effective charges *inc.* by about £200,000
A new arrangement in reference to the Indian accounts was made.
The Suez Canal Shares were purchased at a cost of £4,076,565. The four millions were raised by loan.

## 1876–7. EXPENDITURE.

| Budget, April 3. | Estimate, April 3rd, 1876. | Result. | Northcote. |
|---|---|---|---|
| **Debt.** | | | |
| Debt Charge . . | | 21,701,021 | |
| Termin. Annuities . | 27,700,000 | 5,374,199 | |
| New Sinking Fund | | 624,780 | |
| Local Loans and Suez Bonds . . . | 310,000 | 292,834 | |
| | | 27,992,834 | |
| **War Services.** | | | |
| Army . . . . | 14,414,000 | 14,383,355 | |
| Purchase . . . | 464,000 | 498,362 | |
| *Indian Establishment* | *868,000* | *868,000* | |
| Navy . . . . | 11,289,000 | 11,364,383 | |
| | | 27,114,100 | New Sinking Fund further *inc.* by £300,000. |
| **Administration.** | | | |
| Consolidated Fund . | 1,590,000 | 1,595,039 | Navy expenditure includes a deficiency of £75,500 for 1875. |
| Civil Administration . | 13,309,000 | 13,333,851 | |
| | | 14,928,890 | |
| Collection of Rev. | 2,730,000 | 2,766,279 | |
| | | 2,766,279 | |
| **Business Outlay.** | | | |
| Post Office . . . | 3,220,000 | 3,159,218 | |
| Packet Service . . | 852,000 | 850,889 | |
| Telegraph Service . . | 1,128,000 | 1,141,000 | |
| | | 5,151,107 | |
| | 77,874,000 | 77,953,210 | |
| Adjt. Army & Indian Accounts . . | 170,000 | 170,000 | |
| Ashantee War . . | | 2,017 172,017 | |
| | **78,044,000** | **78,125,227** | |
| *Localn. of Military Forces* . . | | *900,000* | |

## REVENUE.

| | Estimate, April 3. Based on Taxation of Previous Year. | Estimate, April 3. After Proposed Alterations. | Result. | |
|---|---|---|---|---|
| **From Taxes.** | | | | |
| Customs . . . | 20,250,000 | | 19,922,000 | |
| Excise . . . . | 27,650,000 | 27,624,000 | 27,736,000 | Income tax *inc.* from 2*d.* to 3*d.* and exemptions extended. |
| Stamps . . . | 11,000,000 | | 10,126,000 | |
| Fee Stamps & Patents | | | 764,000 | |
| Land and House . . | 2,500,000 | | 2,532,000 | |
| Income Tax . . . | 4,100,000 | 5,268,000 | 5,280,000 | |
| | | | 66,360,000 | |
| **From Business.** | | | | |
| Post Office . . . | 5,950,000 | | 6,000,000 | |
| Telegraph Service . | 1,325,000 | | 1,305,000 | |
| | | | 7,305,000 | |
| Crown Lands (net) . | 395,000 | | 410,000 | Indian receipts include £100,000 for capitalization of pensions. |
| | | | 410,000 | |
| **Miscellaneous.** | | | | |
| Miscellaneous . | | | 1,925,564 | |
| Army and Navy Rec. | | | 902,500 | |
| *Army Indian Rec.* | 4,100,000 | | *868,300* | |
| Local Loans and Suez Bonds . . | | | 793,682 | |
| | | | 4,490,036 | |
| | **77,270,000** | **78,412,000** | **78,565,036** | |
| *Surplus* . . | | 368,000 | 439,809 | |
| *Deficit* . . . . | 774,000 | | | |

## 1877--8. EXPENDITURE.

| Budget, April 12. | Estimate. April 12th, 1877. | Estimate. Jan. 23rd, 1878. | Result. | Northcote. |
|---|---|---|---|---|
| **Debt.** | | | | |
| Debt Charge . . | | | 21,687,657 | |
| Termin. Annuities . | 28,000,000 | | 5,547,518 | |
| New Sinking Fund . | | | 764,825 | |
| Local Loans and Suez Bonds . . . | 420,000 | | 412,750 | |
| | | | 28,412,750 | |
| **War Services.** | | | | |
| Army . . . | 14,538,700 | | 14,607,445 | |
| Purchase . . . | 500,000 | | 504,719 | |
| *Indian Establ.* . . | *1,000,000* | | *1,000,000* | |
| Navy . . . . | 10,979,829 | | 10,978,592 | |
| | | | 27,090,756 | |
| **Administration.** | | | | |
| Consolidated Fund . | 1,600,000 | | 1,641,585 | |
| Civil Administration . | 13,726,198 | | 13,982,554 | |
| | | | 15,624,139 | |
| Collection of Rev. | 2,767,165 | | 2,688,267 | |
| | | | 2,688,267 | |
| **Business Outlay.** | | | | |
| Post Office . . . | 3,261,461 | | 3,185,346 | |
| Packet Service . . | 767,877 | | 763,000 | |
| Telegraph Service . | 1,232,814 | | 1,139,237 | |
| | | | 5,087,583 | |
| | | | 78,903,495 | |
| Vote of Credit (war in Europe) . . | | 6,000,000 | 3,500,000 | |
| | **78,794,044** | **84,800,000** | **82,403,495** | |
| *Fortifications and Barracks . .* | | | *800,000* | |

New Sinking Fund further *inc.* by £300,000 and brought up to £28,000,000.
Both army and navy expenditure include outlay on Transkei war.
The Indian charge for the first time distinguished from the army charge on the accounts.
The actual expenditure out of the vote of credit was £3,197,400.

## REVENUE.

| | Estimate, April 12. Based on Taxation of Previous Year. | Result. | |
|---|---|---|---|
| **From Taxes.** | | | |
| Customs . . . | 19,850,000 | 19,969,000 | No changes in taxation. |
| Excise . . . . | 27,500,000 | 27,464,000 | |
| Stamps . . | 10,920,000 | 10,175,000 | |
| Fee Stamps & Patents | | 781,000 | |
| Land and House . | 2,560,000 | 2,670,000 | |
| Income Tax . . . | 5,540,000 | 5,820,000 | |
| | | 66,879,000 | |
| **From Business.** | | | |
| Post Office . . . | 6,100,000 | 6,150,000 | |
| Telegraph Service . . | 1,300,000 | 1,310,000 | |
| | | 7,460,000 | |
| Crown Lands (net) . | 410,000 | 410,000 | |
| | | 410,000 | |
| **Miscellaneous.** | | | |
| Miscellaneous. . | | 2,038,915 | |
| Army and Navy Rec. | 3,890,000 | 776,600 | |
| *Army Indian Rec.* | | 1,248,900 | |
| Int. on Local Loans and Suez Bonds . | 950,000 | 949,883 | |
| | | 5,014,298 | |
| | **79,020,000** | **79,763,298** | |
| *Surplus . . . .* | 225,956 | | |
| *Deficit . . . .* | | 2,640,197 | |

## 1878–9. EXPENDITURE.

| Budget, April 4. | Estimate. April 4th, 1878. | Estimate. August 6th, 1878. | Result. | | Northcote. |
|---|---|---|---|---|---|
| **Debt.** | | | | | |
| Debt Charge . . | | | 21,784,181 | | |
| Termin. Annuities . | 28,094,000 | | 5,711,318 | | In addition to the estimated expenditure of £81,020,000, it was stated that there would be additional expenditure on the army and navy of from a million to a million and a half on account of the "war in Europe." In August these Supp. Estimates were put at £3,366,000, which included £344,000 for the Transkei war, and £95,000 for Civil Service and Abyssinia. In addition to this, a further sum of £400,000 would, it was thought, be required on account of the Transkei war. The army and navy expenditure results include these supplementary estimates. |
| New Sinking Fund . | | | 633,876 | | |
| Local Loans and Suez Bonds . . . | 625,000 | | 514,808 | 28,644,183 | |
| **War Services.** | | | | | |
| Army . . . . | 15,247,600 | 17,840,600 | 17,354,873 | | |
| Purchase . . . | 348,200 | | 298,600 | | |
| *Indian Establ.* . . | *1,080,000* | | *1,080,000* | | |
| Navy . . . . | 11,053,901 | 11,731,901 | 11,962,316 | 30,695,789 | |
| **Administration.** | | | | | |
| Consolidated Fund . | 1,760,000 | | 1,624,422 | | |
| Civil Administration . | 14,816,475 | 14,891,475 | 14,974,761 | 16,599,183 | |
| Collection of Rev. | 2,793,068 | | 2,791,169 | 2,791,169 | |
| **Business Outlay.** | | | | | |
| Post Office . . . | 3,313,215 | | 3,273,000 | | |
| Packet Service . . | 773,245 | | 777,600 | | |
| Telegraph Service . | 1,114,972 | | 1,109,000 | 5,159,600 | |
| | | 84,365,676 | | 83,889,924 | |
| Abyssinian Expedition | | 20,000 | 17,865 | | |
| Zulu Vote of Credit . | | | 1,500,000 | 1,517,865 | The expenditure on the Transkei war was met from army and navy savings. Of the Zulu vote of credit (taken in Feb., 1879), only £620,000 was actually spent in 1878. |
| | **81,019,676** | **84,385,676** | | **85,407,789** | |
| Kaffir War . . | | 400,000 | | | |
| *Barracks* . . | | | | *450,000* | |

## REVENUE.

| | Estimate, April 4. Based on Taxation of Previous Year. | Estimate, April 4. After Proposed Alterations. | Result. | | |
|---|---|---|---|---|---|
| **From Taxes.** | | | | | |
| Customs . . . | 19,750,000 | 20,500,000 | 20,316,000 | | |
| Excise . . . | 27,500,000 | 27,600,000 | 27,400,000 | | Income tax *inc.* from 3*d.* to 5*d.* |
| Stamps . . . | 10,930,000 | | 9,840,000 | | Tobacco duty *inc.* by 4*d.* per lb. |
| Fee Stamps & Patents | | | 830,000 | | |
| Land and House . | 2,660,000 | 2,630,000 | 2,720,000 | | Dog licences *inc.* from 5*s.* to 7*s.* 6*d.* |
| Income Tax . . . | 5,620,000 | 8,570,000 | 8,710,000 | 69,816,000 | |
| **From Business.** | | | | | |
| Post Office . . . | 6,200,000 | | 6,240,000 | | |
| Telegraph Service . . | 1,315,000 | | 1,335,000 | 7,575,000 | |
| Crown Lands (net) . | 410,000 | | 410,000 | 410,000 | |
| **Miscellaneous.** | | | | | |
| Miscellaneous . . | 4,000,000 | | 2,260,120 | | |
| Army and Navy Rec. | | | 783,100 | | |
| *Army Indian Rec.* | | | *1,180,000* | | It is very difficult clearly to state the surplus and deficits as the original Supp. Estimates were so vague. |
| Int. on Local Loans and Suez Bonds . | 1,075,000 | | 1,091,752 | 5,314,972 | |
| | **79,460,000** | **83,230,000** | | **83,115,972** | |
| *Surplus (on Ord. Exp.)* | | 2,210,324 | | | |
| *Deficit (on Ord. Exp.)* | 1,559,676 | (Aug.) | | | |
| „ *(on Ext.) circ.* | 3,000,000 | 1,155,676 | | 2,291,817 | |

| Budget, April 3. | Estimate. April 3rd, 1879. | Estimate. July, 1879. | Estimate. Mar., 1880. | Result. | Northcote. |
|---|---|---|---|---|---|
| **Debt.** | | | | | |
| Debt Charge . . | | | | 21,852,579 | |
| Termin. Annuities . | 28,220,000 | | | 5,717,471 | |
| New Sinking Fund . | | | | 651,064 | |
| Local Loans and Suez Bonds . . . | 640,000 | | | 541,760 | |
| | | | | 28,762,874 | |
| **War Services.** | | | | | |
| Army . . . . | 15,347,700 | | | 15,414,366 | Considerable savings on the Army and Navy grants applied to reduction of the Vote of Credit. |
| Purchase . . . | 298,000 | | | 231,500 | |
| *Indian Estabt.* . . | *1,100,000* | | | *1,115,050* | |
| Navy . . . . | 10,586,894 | | | 10,416,132 | |
| | | | | 27,177,049 | |
| **Administration.** | | | | | |
| Consolidated Fund . | 1,760,000 | | | 1,598,544 | |
| Civil Administration . | 15,084,851 | | 15,693,264 | 15,324,596 | |
| | | | | 16,923,140 | |
| Collection of Rev. | 2,865,383 | | 2,869,683 | 2,784,317 | |
| | | | | 2,784,317 | |
| **Business Outlay.** | | | | | |
| Post Office . . . | 3,368,825 | | | 3,333,000 | |
| Packet Service . . | 766,725 | | 774,125 | 772,820 | |
| Telegraph Service . | 1,115,195 | | | 1,107,000 | |
| | | | | 5,212,820 | |
| | 81,153,573 | 81,218,000 * | 81,773,686 | 80,860,200 | |
| Votes of Credit { Zulu . . | | | | 2,772,720 | |
| Griqualand W | | 3,000,000 | 4,225,200 | 222,200 | 3,244,920 |
| Sekukuni . | | | | 250,000 | |
| Abyssinia . . | | | 985 | 634 | 634 |
| | **81,153,573** | **84,218,000** | **85,999,871** | **84,105,754** | |
| Loan to India . . | | | | 2,000,000 | |
| *Barracks* . . . | | | | *250,000* | |

* The total of estimated ordinary expenditure was *inc.* by £64,000 Supp. Estimates between April and July.

It was expected in the original estimate that the cost of the Zulu war would be between £1,300,000 and £1,900,000.

## REVENUE.

| | Estimate, April 3. Based on Taxation of Previous Year. | Result. | | |
|---|---|---|---|---|
| **From Taxes.** | | | | |
| Customs . . . | 20,000,000 | 19,326,000 | | Slight changes in duties on tobacco and cocoatina included in "basis" estimate. |
| Excise . . . . | 27,270,000 | 25,300,000 | | |
| Stamps . . | 10,780,000 | 10,414,000 | | |
| Fee Stamps & Patents | | 886,000 | | |
| Land and House . | 2,700,000 | 2,670,000 | | |
| Income Tax . . . | 9,250,000 | 9,230,000 | | |
| | | | 67,826,000 | |
| **From Business.** | | | | |
| Post Office . . . | 6,250,000 | 6,350,000 | | |
| Telegraph Service . . | 1,340,000 | 1,420,000 | | |
| | | | 7,770,000 | |
| Crown Lands (net) . | 390,000 | 390,000 | | There was a nominal surplus on the ordinary expenditure of £1,900,000, but it was expected that the whole of it would be swallowed up by past and future outlay on the Zulu war. |
| | | | 390,000 | |
| **Miscellaneous.** | | | | |
| Miscellaneous . . | | 2,098,760 | | |
| Army and Navy Rec. | 3,900,000 | 781,500 | | |
| *Army Indian Rec.* | | 1,144,200 | | |
| Int. on Local Loans and Suez Bonds . | 1,175,000 | 1,254,596 | | |
| | | | 5,279,056 | |
| | **83,055,000** | | **81,265,056** | |
| *Surplus* (April, 1879) . | 1,901,427 | | | |
| *Deficit* (July, 1879) . | 1,163,000 | | 2,840,698 | |
| ,, (March, 1880) | 2,945,000 | | | |

## 1880—1. EXPENDITURE.

| Budget, March 11. Budget, June 10. | Estimate. March 11th, 1880. | Estimate. June 10th, 1880. | Result. | Northcote. Gladstone. |
|---|---|---|---|---|
| **Debt.** | | | | |
| Debt Charge . . | | | 21,716,190 | |
| Termin. Annuities . | 28,345,478 | 28,934,978 | 6,852,636 | |
| New Sinking Fund | | | 351,402 | |
| Local Loans and Suez Bonds . . . | 700,000 | | 655,036 | |
| | | | 29,575,264 | |
| **War Services** | | | | |
| Army . . . | 15,541,300 | | 15,341,002 | |
| Purchase . . | | | 217,600 | |
| *Indian Establ.* . . | *1,100,000* | | *1,100,000* | |
| Navy . . . . | 10,492,935 | | 10,702,935 | |
| | | | 27,361,537 | The new Sinking Fund was brought up to £28,800,000 until 1885. |
| **Administration.** | | | | |
| Consolidated Fund . | 1,712,000 | | 1,669,769 | |
| Civil Administration . | 15,436,442 | | 15,778,730 | |
| | | | 17,448,499 | Army and Navy expenditure includes some expenditure on the Transvaal expedition. |
| Collection of Rev. | 2,816,709 | | 2,850,491 | |
| | | | 2,850,491 | |
| **Business Outlay.** | | | | |
| Post Office . . . | 3,420,404 | | 3,415,200 | |
| Packet Service . . | 710,468 | | 716,934 | |
| Telegraph Service . | 1,210,736 | | 1,240,000 | |
| | | | 5,372,134 | |
| | | | 82,607,925 | |
| Grant to India for Afghan War . | | | 500,000 | |
| | 81,486,472 | 82,075,972 | 82,275,000 | 83,107,925 |

## REVENUE.

| | Estimate, March 11. Based on Taxation of Previous Year. | Estimate, March 11. After Proposed Alterations. | Estimate, June 10th, 1880. | Result. | |
|---|---|---|---|---|---|
| **From Taxes.** | | | | | |
| Customs . . . | 19,300,000 | | | 19,184,000 | |
| Excise . . . . | 26,140,000 | | 25,112,000 | 25,300,000 | In March, Probate duties *rev.* and *inc.* |
| Stamps . . . | 11,100,000 | 11,800,000 | | 11,079,000 | |
| Fee Stamps & Patents | | | | 861,000 | In June, Income Tax *inc.* from 5*d.* to 6*d.* (2*d.* extra on *half*-year.) |
| Land and House . | 2,760,000 | | | 2,740,000 | |
| Income Tax . . | 9,000,000 | | 10,425,000 | 10,650,000 | Malt duty commuted into a Beer tax. |
| | | | | 69,814,000 | Publicans' licences raised. |
| **From Business.** | | | | | |
| Post Office . . . | 6,400,000 | | | 6,700,000 | |
| Telegraph Service . | 1,420,000 | | | 1,600,000 | |
| | | | | 8,300,000 | |
| Crown Lands (net) . | 390,000 | | | 390,000 | |
| | | | | 390,000 | |
| **Miscellaneous.** | | | | | |
| Miscellaneous . | 3,800,000 | | | 2,091,776 | |
| Army and Navy Rec. | | | | 978,600 | |
| *Army, Indian Rec.* | | | | *1,219,200* | |
| Int. on Local Loans and Suez Bonds . | 1,250,000 | | | 1,247,712 | |
| | | | | 5,537,288 | |
| | 81,560,000 | 82,260,000 | 82,657,000 | 84,041,288 | |
| *Surplus* . . . | 73,528 | 184,028 | 382,000 | 933,363 | |
| *Deficit* . . . . | | | | | |

## 1881—2. EXPENDITURE.

| Budget, April 4. | Estimate, April 4th. | Result. | | Gladstone. |
|---|---|---|---|---|
| **Debt.** | | | | |
| Debt Charge . . | | 21,571,494 | | |
| Termin. Annuities . | 28,920,000 | 7,150,961 | | |
| New Sinking Fund | | 270,120 | | |
| Local Loans and Suez Bonds . . . | 700,000 | 673,370 | | |
| | | | 29,665,945 | |
| **War Services.** | | | | |
| Army . . . . | 16,293,700 | 16,138,185 | | |
| Purchase . . . | 205,800 | 171,400 | | |
| *Indian Establ.* . . | *1,100,000* | *1,100,000* | | |
| Navy . . . . | 10,845,919 | 10,756,453 | | |
| | | | 28,166,038 | |
| **Administration.** | | | | The Army and Navy estimates and expenditure include rather over a million and a quarter for the Transvaal. Consolidated Fund estimate includes £100,000 for barracks. |
| Consolidated Fund . | 1,750,000 | 1,664,438 | | |
| Civil Administration . | 16,087,504 | 16,419,038 | | |
| | | | 18,083,476 | |
| Collection of Rev. | 2,851,208 | 2,840,755 | | |
| | | | 2,840,755 | |
| **Business Outlay.** | | | | |
| Post Office . . . | 3,539,525 | 3,606,800 | | |
| Packet Service . . | 707,767 | 708,542 | | |
| Telegraph Service . | 1,294,081 | 1,366,000 | | |
| | | | 5,681,342 | |
| | 84,305,504 | | 84,437,556 | |
| Grant to India for Afghan War . | 500,000 | 500,000 | 1,035,000 | |
| Transvaal (C. Service) | | 400,000 | | |
| Zulu . . . . | | 135,000 | | |
| | **84,705,504** | | **85,472,556** | |

## REVENUE.

| | Estimate, April 4. | | Result. | | |
|---|---|---|---|---|---|
| | Based on Taxation of Previous Year. | After Proposed Alterations. | | | |
| **From Taxes.** | | | | | |
| Customs . . . | 19,000,000 | 19,180,000 | 19,287,000 | | Income tax *red.* from 6*d.* to 5*d.* Probate and legacy duties altered and *inc.* |
| Excise . . . . | 27,440,000 | | 27,240,000 | | |
| Stamps . . . | 11,900,000 | 12,290,000 | 11,384,000 | | |
| Fee Stamps & Patents | | | 876,000 | | |
| Land and House . | 2,760,000 | | 2,725,000 | | |
| Income Tax . . . | 11,000,000 | 9,540,000 | 9,945,000 | | |
| | | | | 71,457,000 | |
| **From Business.** | | | | | |
| Post Office . . . | 6,800,000 | | 7,000,000 | | |
| Telegraph Service . . | 1,600,000 | | 1,630,000 | | |
| | | | | 8,630,000 | |
| Crown Lands (net) . | 390,000 | | 380,000 | | |
| | | | | 380,000 | |
| **Miscellaneous.** | | | | | |
| Miscellaneous . | 3,900,000 | | 2,267,220 | | |
| Army and Navy Rec. | | | 768,800 | | |
| *Army, Indian Rec.* | | | *1,100,000* | | |
| Int. on Local Loans and Suez Bonds . | 1,200,000 | | 1,219,262 | | |
| | | | | 5,355,282 | |
| | **85,990,000** | **85,100,000** | | **85,822,282** | |
| *Surplus* . . . | 1,184,496 | 294,496 | | 349,736 | |
| *Deficit* . . . . | | | | | |

| Budget, April 24. | Estimate. April 24th, 1882. | Estimate. July 24th, 1882. | Estimate. Nov.—Feb. | Result. | | Gladstone. |
|---|---|---|---|---|---|---|
| **Debt.** | | | | | | |
| Debt Charge . . | | | | 21,583,632 | | |
| Termin. Annuities . | 29,003,672 | | | 7,206,247 | | |
| New Sinking Fund | | | | 213,793 | | |
| Loc. Loans and Suez Bonds . . . | 710,000 | | | 675,425 | | |
| | | | | | 29,679,097 | |
| **War Services.** | | | | | | |
| Army . . . . | 15,873,100 | | | 15,940,951 | | |
| Purchase . . . | 155,000 | | | 131,400 | | |
| *Indian Establ.* . . | *1,100,000* | | | *1,100,000* | | |
| Navy . . . . | 10,723,901 | | | 10,648,904 | | |
| | | | | | 27,821,255 | |
| **Administration.** | | | | | | |
| Consolidated Fund . | 1,701,000 | | | 1,541,999 | | |
| Civil Administration . | 16,872,729 | 17,350,051 | 17,673,106 | 17,350,001 | | |
| | | | | | 18,892,000 | |
| Collection of Rev. | 2,900,977 | | 2,928,977 | 2,870,301 | | |
| | | | | | 2,870,301 | |
| **Business Outlay.** | | | | | | |
| Post Office . . . | 3,743,300 | | 3,881,800 | 3,828,500 | | |
| Packet Service . . | 710,514 | | 724,514 | 719,625 | | |
| Telegraph Service . | 1,435,298 | | 1,522,298 | 1,510,000 | | |
| | | | | | 6,058,125 | |
| | 84,929,491 | 85,406,813 | 85,997,368 | | 85,320,778 | |
| Afghan War (Grant in aid) . . | 500,000 | | | 500,000 | 4,395,500 | |
| Forces in Mediterran. | | 2,300,000 | | 3,895,500 | | |
| Egypt. Exp. Sup. Vote | | | 1,595,500 | | | |
| | **85,429,491** | **88,206,813** | **90,392,868** | | **89,716,278** | |

The Civil Service estimates *inc.* by £250,000 for highway grant.

The new system of voting the Army and Navy estimates "net" instead of "gross" introduced. In order to enable accurate comparison to be made with former years the "extra receipts" thus deducted, are here added, namely, £570,000 to the Army and £240,000 to the Navy estimates and expenditure. The equivalent receipts are added to the revenue. Thus the total expenditure and the total revenue are each greater by £810,000 than the totals given in the *Statistical Abstract.*

## REVENUE.

| | Estimate. Based on Taxation of Previous Year. | Estimate. After Proposed Alterations. | Result. | | |
|---|---|---|---|---|---|
| **From Taxes.** | | | | | |
| Customs . . . | 19,300,000 | | 19,657,000 | | |
| Excise . . . . | 27,230,000 | | 26,930,000 | | |
| Stamps . . . | 11,145,000 | | 11,841,000 | | |
| Land and House . . | 2,775,000 | | 2,800,000 | | |
| Income Tax . . | 9,400,000 | 11,662,000 | 11,900,000 | | |
| | | | | 73,128,000 | |
| **From Business.** | | | | | |
| Post Office . . . | 7,150,000 | | 7,300,000 | | |
| Telegraph Service . | 1,650,000 | | 1,710,000 | | |
| | | | | 9,010,000 | |
| Crown Lands (net) . | 380,000 | | 380,000 | | |
| | | | | 380,000 | |
| **Miscellaneous.** | | | | | |
| Miscellaneous . | | | 2,400,800 | | |
| Fee Stamps & Patents | 4,325,000 | | 832,211 | | |
| Army and Navy Rec. | | | 527,600 | | |
| *Army, Indian Rec.* | | | *1,107,000* | | |
| Int. on Local Loans and Suez Bonds . | 1,180,000 | | 1,218,845 | | |
| From Cape for Transkei War . . | 150,000 | | 150,000 | | |
| From Natal for Zulu War . . . | 250,000 | | 250,000 | | |
| | | | | 6,486,456 | |
| | 84,935,000 | 87,197,000 | | 89,004,456 | |
| Army and Navy Rec. | 810,000 | | | 810,000 | |
| | **85,745,000** | **88,007,000** | | **89,814,456** | |
| *Surplus* . . . | 315,000 | | | 98,178 | |
| *Deficit* . . . . | | 200,000 | | | |

Income tax *inc.* in Nov. from 5*d.* to 6½*d.*, the whole increase to be collected in the year.

"Fee Stamps and Patents" were taken out of the Stamp Revenue and paid into Miscellaneous.

See note above in reference to the Army and Navy "extra receipts."

## 1883–4. EXPENDITURE.

| Budget, April 5. | Estimate, April 5th, 1883. | Result. | | Childers. |
|---|---|---|---|---|
| **Debt.** | | | | |
| Debt Charge . | | 20,434,798 | | |
| Termin. Annuities . | 28,954,000 | 7,938,561 | | |
| New Sinking Fund | | 600,173 | | |
| Local Loans and Suez Bonds . . . | 725,000 | 677,994 | | |
| | | | 29,651,526 | |
| **War Services.** | | | | |
| Army . . . . | 16,049,000 | 16,357,726 | | The amount of "extra receipts" taken this year in deduction of the Army and Navy estimates, but here added to both sides of the account, is, Army £560,000, Navy £320,000. |
| Purchase . . . | 118,000 | 112,600 | | |
| *Indian Establ.* . . | *1,230,000* | *1,230,000* | | |
| Navy . . . . | 11,079,000 | 11,048,781 | | |
| | | | 28,749,107 | |
| **Administration.** | | | | |
| Consolidated Fund . | 1,640,000 | 1,589,647 | | |
| Civil Administration . | 17,253,000 | 17,181,935 | | |
| | | | 18,771,582 | |
| Collection of Rev. | 2,775,000 | 2,771,749 | | |
| | | | 2,771,749 | |
| **Business Outlay.** | | | | |
| Post Office . . . | 4,124,000 | 4,507,500 | | |
| Packet Service . . | 706,000 | 721,100 | | |
| Telegraph Service . | 1,518,000 | 1,707,000 | | |
| | | | 6,935,600 | |
| | 86,169,000 | | 86,879,564 | |
| Afghan War Grant in aid . . . | 500,000 | | 1,000,000 | |
| | **86,669,000** | | **87,879,564** | |

## REVENUE.

| | Estimate, April 5. | | | Result. | | |
|---|---|---|---|---|---|---|
| | Based on Taxation of Previous Year. | After Proposed Alterations. | | | | |
| **From Taxes.** | | | | | | |
| Customs . . . | 19,750,000 | 19,749,000 | | 19,701,000 | | Income tax *red.* from 6½*d.* to 5*d.* Railway duty practically *red.* by one-half. |
| Excise . . . . | 26,900,000 | 26,755,000 | 26,765,000 | 26,952,000 | | |
| Stamps . . . | 11,510,000 | | | 11,620,000 | | |
| Land and House . . | 2,825,000 | | | 2,875,000 | | |
| Income Tax . . | 12,400,000 | 10,265,000 | | 10,718,000 | | |
| | | | | | 71,866,000 | |
| **From Business.** | | | | | | |
| Post Office . . . | 7,400,000 | | 7,740,000 | 7,730,000 | | |
| Telegraph Service . | 1,750,000 | 1,580,000 | 1,750,000 | 1,745,000 | | |
| | | | | | 9,475,000 | |
| Crown Lands (net) . | 380,000 | | | 380,000 | | |
| | | | | | 380,000 | |
| **Miscellaneous.** | | | | | | |
| Miscellaneous . | | | | 2,430,769 | | |
| Fee Stamps, &c. . | 4,380,000 | | | 812,287 | | |
| *Army, Indian Rec.* | | | | *1,045,000* | | |
| Int. on Local Loans and Suez Bonds . | 1,185,000 | | | 1,196,128 | | |
| | | | | | 5,484,184 | |
| | 88,480,000 | 86,029,000 | 86,549,000 | | 87,205,184 | See note above as to "extra receipts." |
| Army and Navy Rec. . | 880,000 | | | | 880,000 | |
| | **89,360,000** | **86,909,000** | **87,429,000** | | **88,085,184** | |
| *Surplus* . . . . | 2,691,000 | 240,000 | | | 205,620 | |
| *Deficit* . . . | | | | | | |

| Budget, April 24. | Estimate. April 24th, 1884. | Estimate. Aug. and Nov. 1884. | Result. | | Childers. |
|---|---|---|---|---|---|
| **Debt.** | | | | | |
| Debt Charge . . | | | 19,376,161 | | This year the Indian contribution was paid over to the War Office, and went in deduction of the Army estimates, now also charged with the cost of the Indian Establishment. For purposes of comparison this receipt and charge is continued as before in these tables. Thus for 1884–5 the total amount by which the expenditure and the revenue are each greater than the figures given in the *Statistical Abstract* is £2,000,000 in all; namely, £1,130,000 for the Indian charge, and £870,000 for the "extra receipts"—Army £600,000, Navy £270,000. |
| Termin. Annuities | 28,883,673 | | 8,999,065 | | |
| New Sinking Fund | | | 508,447 | | |
| Local Loans and Suez Bonds . . . | 725,000 | | 664,566 | | |
| | | | | 29,548,239 | |
| **War Services.** | | | | | |
| Army . . . | 16,417,400 | | 19,174,055 | | |
| Purchase . . | 113,200 | | 81,283 | | |
| *Indian Establ.* . | *1,130,000* | | *1,130,000* | | |
| Navy . . . | 11,081,770 | | 11,697,064 | | |
| | | | | 32,082,402 | |
| **Administration.** | | | | | |
| Consolidated Fund . | 1,495,000 | | 1,479,412 | | |
| Civil Administration . | 17,243,754 | 17,378,929 | 17,561,836 | | |
| | | | | 19,041,248 | |
| Collection of Rev. | 2,733,566 | | 2,745,368 | | |
| | | | | 2,745,368 | |
| **Business Outlay.** | | | | | |
| Post Office . . . | 4,752,517 | | 4,666,000 | | |
| Packet Service . . | 731,356 | | 728,625 | | |
| Telegraph Service . | 1,734,589 | | 1,731,000 | | |
| | | | | 7,125,625 | |
| | 87,041,825 | | | 90,542,882 | The Army and Navy expenditure include the cost of the Soudan and Bechuanaland expeditions. There was an unspent over-issue of £570,000 on the Army grants. |
| Grant to India . . | 250,000 | | 250,000 | 550,000 | |
| Relief of Gen. Gordon Vote of Credit . | | 300,000 | 300,000 | | These supp. estimates, though voted separately, were added to the ordinary Army and Navy estimates. Of the vote of credit only £20,000 was actually spent. |
| Sup. Est. Soudan . | | 1,324,000 | * | | |
| „ „ Bechuanaland | | 725,000 | | | |
| | 87,291,825 | 89,776,000 | | 91,092,882 | |

## REVENUE.

| | Estimate, April 24. Based on Taxation of Previous Year. | Estimate, April 24. After Proposed Alterations. | Estimate, November, 1884. | Result. | | |
|---|---|---|---|---|---|---|
| **From Taxes.** | | | | | | |
| Customs . . . | 19,850,000 | | | 20,321,000 | | |
| Excise . . . | 26,800,000 | 26,778,000 | | 26,600,000 | | |
| Stamps . . . | 11,490,000 | | | 11,925,000 | | Income tax *inc.* from 5d. to 6d. |
| Land and House . | 2,935,000 | | | 2,950,000 | | |
| Income Tax . . | 10,050,000 | | 11,250,000 | 12,000,000 | | |
| | | | | | 73,796,000 | |
| **From Business.** | | | | | | |
| Post Office . . | 7,900,000 | | | 7,905,000 | | |
| Telegraph Service . . | 1,800,000 | | | 1,760,000 | | |
| | | | | | 9,665,000 | |
| Crown Lands (net) . | 380,000 | | | 380,000 | | |
| | | | | | 380,000 | |
| **Miscellaneous.** | | | | | | |
| Miscellaneous . | 3,170,000 | | | 2,447,631 | | |
| Fee Stamps & Patents | | | | 727,129 | | |
| Int. on Local Loans and Suez Bonds . | 1,180,000 | | | 1,027,350 | | |
| | | | | | 4,202,110 | |
| | 85,555,000 | 85,533,000 | 86,733,110 | | 88,043,110 | |
| Army & Navy, Indian and Extra Rec. . | 2,000,000 | | | | 2,000,000 | See note above in reference to Indian contribution. |
| | 87,555,000 | 87,533,000 | 88,733,000 | | 90,043,110 | |
| *Surplus* . . . | 263,175 | 241,175 | | | | |
| *Deficit* . . . . | | | 1,043,000 | | 1,049,772 | |

| Budget, April 30. Budget, July 9. | Estimate. April 30th, 1885. | | July 9th, 1885. | Result. | | Childers. Hicks-Beach. |
|---|---|---|---|---|---|---|
| **Debt.** | | | | | | |
| Debt Charge | | | | 19,185,552 | | |
| Termin. Annuities | 28,037,000 | 23,437,000 | 22,800,000 | 3,585,807 | | |
| New Sinking Fund | | | | *nil* | | |
| Local Loans and Suez Bonds | 752,000 | | | 678,319 | | |
| | | | | | 23,449,678 | |
| **War Services.** | | | | | | |
| Army | | | | 17,447,084 | | |
| Purchase | 18,321,000 | | | 150,000 | | |
| *Indian Establ.* | *1,250,000* | | | *1,250,000* | | |
| Navy | 12,686,000 | | | 12,960,509 | | |
| | | | | | 31,807,593 | |
| **Administration.** | | | | | | |
| Consolidated Fund | 1,760,000 | | | 1,638,387 | | |
| Civil Administration | 17,687,000 | | 17,817,000 | 17,725,764 | | |
| | | | | | 19,364,151 | |
| Collection of Rev. | 2,801,000 | | | 2,751,664 | | |
| | | | | | 2,751,664 | |
| **Business Outlay.** | | | | | | |
| Post Office | 4,854,000 | | | 4,793,744 | | |
| Packet Service | 754,000 | | | 731,014 | | |
| Telegraph Service | 1,840,000 | | | 1,745,000 | | |
| | | | | | 7,269,758 | |
| | 90,742,000 | | | | 84,642,844 | |
| Afghan War, Grant in aid | 250,000 | | | | 250,000 | |
| Soudan, &c., Vote of Credit | 11,000,000 | | 9,852,000 | | 9,451,000 | |
| For possible Supp. Ests. | 200,000 | | | | | |
| | **102,192,000** | **97,592,000** | **95,737,000** | | **94,343,844** | |

In the April Budget £4,600,000 of Terminable Annuities were suspended.
In the July Budget the new Sinking Fund was also suspended.
The Army estimate includes £500,000 for Bechuanaland, the expenditure was somewhat less.
There was an over issue in 1884 of £570,000 for the Army which went in reduction of the expenditure this year.
The "extra receipts" and Indian contribution added to both sides amount to a total of £2,120,000; namely, Indian £1,250,000, Army, £570,00 Navy £300,000

## REVENUE.

| | Estimate, April 30. Based on Taxation of Previous Year. | After Proposed Alterations. | Estimate, July 9th, 1885. | Result. | | |
|---|---|---|---|---|---|---|
| **From Taxes.** | | | | | | |
| Customs | 20,000,000 | 20,200,000 | 20,000,000 | 19,827,000 | | |
| Excise | 26,350,000 | 27,800,000 | 26,350,000 | 25,460,000 | | |
| Stamps | 11,200,000 | 11,650,000 | 11,450,000 | 11,590,000 | | |
| Land and House | 2,930,000 | | | 2,890,000 | | |
| Income Tax | 10,000,000 | 15,400,000 | | 15,160,000 | | |
| | | | | | 74,927,000 | |
| **From Business.** | | | | | | |
| Post Office | 8,000,000 | | | 8,150,000 | | |
| Telegraph Service | 1,720,000 | | | 1,740,000 | | |
| | | | | | 9,890,000 | |
| Crown Lands (net) | 380,000 | | | 380,000 | | |
| | | | | | 380,000 | |
| **Miscellaneous.** | | | | | | |
| Miscellaneous | 3,200,000 | | | 2,316,320 | | |
| Fee Stamps | | | | 691,893 | | |
| Int. on Local Loans and Suez Bonds | 1,360,000 | | | 1,376,080 | | |
| | | | | | 4,384,301 | |
| | 85,140,000 | 92,640,000 | 90,790,000 | | 89,581,301 | |
| Army & Navy, Indian & Extra Rec. | 2,120,000 | 2,120,000 | 2,120,000 | | 2,120,000 | |
| | **87,260,000** | **94,760,000** | **92,910,000** | | **91,701,301** | |
| *Surplus* | | | | | | |
| *Deficit* | 14,932,000 | 2,832,000 | 2,827,000 | | 2,642,543 | |

Income tax *inc.* from 6*d.* to 8*d.*, but only taken as 5*d.* in "basis."
Tax imposed on corporate property.
Additional stamp duty imposed.

Basis of Telegraph Service includes deduction of £40,000 for sixpenny telegrams.
See note above in reference to the £2,120,000 added.

## 1886–7. EXPENDITURE.

| Budget, April 15. | Estimate. April 15th, 1886. | | Result. | Harcourt. |
|---|---|---|---|---|
| **Debt.** | | | | |
| Debt Charge . | | | 19,235,149 | |
| Termin. Annuities . | 28,036,917 | 27,218,547 | 8,131,218 | |
| New Sinking Fund | | | *nil* | |
| Loc. Loans and Suez Bonds . . . | 841,000 | | 611,656 | |
| | | | 27,978,023 | |
| **War Services.** | | | | |
| Army . . . Purchase . . | 18,758,200 | | 19,178,138 | New Sinking Fund and Sinking Fund of 1881 suspended. |
| *Indian Establ.* . . | *1,411,400* | | *1,411,400* | "Local Loans," &c., includes £20,000 for Friendly Societies deficiency. |
| Navy . . . . | 13,185,100 | | 13,457,401 | "Extra receipts" and Indian contribution amount to a total of £2,128,400; namely, Indian £1,411,400, Army £525,000, Navy £192,000 |
| | | | 34,046,939 | |
| **Administration.** | | | | |
| Consolidated Fund . | 1,762,000 | | | |
| Civil Administration . | 18,008,691 | | | |
| | | | 19,326,479 | |
| Collection of Rev. | 2,753,563 | | 2,676,918 | |
| | | | 2,676,918 | |
| **Business Outlay.** | | | | |
| Post Office . . . | 5,218,955 | | 5,436,893 | |
| Packet Service . . | 735,663 | | 724,900 | |
| Telegraph Service . | 1,845,510 | | 1,935,000 | |
| | | | 8,096,793 | |
| | **92,556,999** | **91,738,629** | **92,125,152** | |

## REVENUE.

| | Estimate, April 15. Based on Taxation of Previous Year. | After Proposed Alterations. | Result. | |
|---|---|---|---|---|
| **From Taxes.** | | | | |
| Customs . . . . | 19,700,000 | | 20,155,000 | Limit of licences to private brewers raised. |
| Excise . . . | 25,710,000 | 25,694,000 | 25,250,000 | |
| Stamps . . . . | 11,365,000 | | 11,830,000 | |
| Land and House . | 2,920,000 | | 2,980,000 | |
| Income Tax . . . | 15,755,000 | | 15,900,000 | |
| | | | 76,115,000 | |
| **From Business.** | | | | |
| Post Office . . . | 8,270,000 | | 8,450,000 | |
| Telegraph Service . | 1,730,000 | | 1,830,000 | |
| | | | 10,280,000 | |
| Crown Lands (net) . | 370,000 | | 370,000 | |
| | | | 370,000 | |
| **Miscellaneous.** | | | | |
| Miscellaneous . | 2,900,000 | | 2,117,527 | |
| Fee Stamps . . | | | 714,039 | |
| Int. on Local Loans and Suez Bonds . | 1,165,000 | | 1,176,192 | |
| | | | 4,007,758 | |
| | 89,885,000 | 89,869,000 | 90,772,758 | |
| Army & Navy, Indian & Extra Rec. | 2,128,400 | 2,128,400 | 2,128,400 | |
| | **92,013,400** | **91,997,400** | **92,901,158** | |
| *Surplus* . . . . | | 258,771 | 776,006 | |
| *Deficit* . . . | 543,599 | | | |

# APPENDIX D.—DEBT TABLE FROM 1857 TO 1885.

| Year. | Total Debt, calc. in Consols at par, after deducting amount of Exchequer Balances to Credit. | Total Liability for Deficiencies on Savings Banks and Friendly Societies' Accounts, and Liabilities of Consolidated Fund. | Total Debt and Liabilities. | Nominal Reduction in Year. | Periods. | Unremunerative. Forts, Localization of Forces, etc. | Remunerative. Purchases—Telegraphs, Suez Canal Shares, Redemption, Dues, etc. | Balance of Advances over Repayments for Local Loans.[1] | Total Reduction of Debt in the Year, after excluding that created for Special Purposes. | Periods. | Year. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1. | 2. | 3. | 4. | 5. | 6. | 7. | 8. | 9. | 10. | |
| 1857-58. | 824,875,000 | 4,209,000 | 829,084,000 | 4,000,000 | 4,000,000 | | 1,125,200[2] | *409,000* | 4,716,000 | 4,716,000 | 1857-58. |
| 1858-59. | 821,174,000 | 4,313,000 | 825,437,000 | 3,597,000 | 3,597,000 | | | *423,000* | 3,174,000 | 3,174,000 | 1858-59. |
| 1859-60. | 815,181,000 | 4,460,000 | 819,641,000 | 5,846,000 | | | | *573,000* | 5,273,000 | | 1859-60. |
| 1860-61. | 815,530,000 | 4,620,000 | 820,150,000 | *509,000* | | 200,000 | | *537,000* | *846,000* | | 1860-61. |
| 1861-62. | 816,358,000 | 4,791,000 | 821,149,000 | *999,000* | | 970,000 | 153,000 | *124,000* | nil. | | 1861-62. |
| 1862-63. | 814,728,000 | 4,892,000 | 819,620,000 | 1,529,000 | 21,979,000 | 950,000 | | *691,000* | 1,788,000 | 24,725,000 | 1862-63. |
| 1863-64. | 810,832,000 | 4,436,000 | 815,268,000 | 4,352,000 | | 820,000 | 175,000 | *223,000* | 5,124,000 | | 1863-64. |
| 1864-65. | 806,097,000 | 4,641,000 | 810,738,000 | 4,530,000 | | 660,000 | 175,000 | 273,000 | 5,638,000 | | 1864-65. |
| 1865-66. | 798,673,000 | 4,835,000 | 803,508,000[3] | 7,230,000 | | 450,000 | | 68,000 | 7,748,000 | | 1865-66. |
| 1866-67. | 794,916,262 | 5,182,000 | 800,098,000 | 3,410,000 | 3,410,000 | 500,000 | | 442,000 | 4,352,000 | 4,352,000 | 1866-67. |
| 1867-68. | 795,068,000 | 4,620,000 | 799,688,000 | 410,000 | 129,000 | 480,000 | | *190,000* | 700,000 | 797,000 | 1867-68. |
| 1868-69. | 795,079,000 | 4,890,000 | 799,969,000 | *281,000* | | 525,000 | | *147,000* | 97,000 | | 1868-69. |
| 1869-70. | 786,303,000 | 9,155,000[4] | 795,458,000 | 4,511,000 | | 200,000 | 7,000,000 | *428,000* | 11,283,000 | | 1869-70. |
| 1870-71. | 782,161,000 | 8,911,000 | 791,072,000 | 4,386,000 | | 150,000 | 300,000 | *490,000* | 4,346,000 | | 1870-71. |
| 1871-72. | 776,583,000 | 8,830,000 | 785,413,000 | 5,659,000 | 25,393,000 | 370,000 | 1,368,000 | *704,000* | 6,693,000 | 35,954,000 | 1871-72. |
| 1872-73. | 767,229,000 | 9,014,000 | 776,243,000 | 9,170,000 | | 308,000 | | *357,000* | 9,121,000 | | 1872-73. |
| 1873-74. | 765,492,000 | 9,084,000 | 774,576,000 | 1,667,000 | | 500,000 | 1,190,000 | 1,154,000 | 4,511,000 | | 1873-74. |
| 1874-75. | 762,681,000 | 9,228,000 | 771,909,000 | 2,667,000 | | 600,000 | | 1,404,000 | 4,671,000 | | 1874-75. |
| 1875-76. | 765,787,000 | 9,133,000 | 774,920,000 | *3,011,000* | | 250,000 | 4,345,000 | 2,481,000 | 4,065,000 | | 1875-76. |
| 1876-77. | 764,026,000 | 9,147,000 | 773,173,000 | 1,747,000 | | 900,000 | 284,000 | 2,181,000 | 5,112,000 | 19,295,000 | 1876-77. |
| 1877-78. | 765,908,000 | 8,966,000 | 774,874,000 | *1,701,000* | *2,429,000* | 800,000 | 315,000 | 3,437,000 | 2,851,000 | | 1877-78. |
| 1878-79. | 766,049,000 | 9,142,000 | 775,191,000 | *317,000* | | 700,000 | 146,000 | 1,988,000 | 2,517,000 | | 1878-79. |
| 1879-80. | 768,332,000 | 8,673,000 | 777,005,000[5] | *1,814,000* | | | | 1,893,000 | 79,000 | | 1879-80. |
| 1880-81. | 760,221,000 | 8,363,000 | 768,584,000 | 8,421,000 | | | | *1,483,000* | 6,938,000 | | 1880-81. |
| 1881-82. | 754,711,000 | 6,577,000 | 761,288,000 | 7,296,000 | | | | *880,000* | 6,416,000 | | 1881-82. |
| 1882-83. | 747,483,000 | 6,211,000 | 753,694,000 | 7,594,000 | 35,218,000 | | | *1,259,000* | 6,335,000 | 29,609,000 | 1882-83. |
| 1883-84. | 740,791,000 | 6,476,000 | 747,267,000 | 6,427,000 | | | | *927,000* | 5,500,000 | | 1883-84. |
| 1884-85. | 735,337,000 | 6,450,000 | 741,787,000 | 5,480,000 | | | | *1,060,000* | 4,420,000 | | 1884-85. |
| 1885-86. | 736,656,000 | 6,434,000 | 743,090,000 | *1,303,000* | *1,303,000* | | | *707,000* | *2,010,000* | *2,010,000* | 1885-86. |
| | | | | | 89,994,000 | 10,333,000 | 16,576,000[6] | 3,709,000[7] | | 120,612,000 | |

[1] The figures in italics signify that there was an excess of repayments over advances. From 1874 onwards, the interest on Local Loans was no longer paid into the Balances, but into the Miscellaneous Revenue.

[2] For redemption of "Sound Dues."

[3] £3,945,000 of stock cancelled on account of Unclaimed Dividends, etc.

[4] £5,870,000 of stock and cash belonging to the Courts of Chancery and Bankruptcy Fund were transferred to Nat. Debt Coms. and cancelled, in lieu of which a Book Debt was created.

[5] Stock for £2,000,000 created for loan to India.

[6] Of this total, in round numbers, £11,000,000 has been expended on the Telegraphs, and £4,000,000 on the purchase of the Suez Canal Shares.

[7] This total represents the balance of Public Advances from the Exchequer to Local Bodies over Repayments, and represents a good asset.

---

Of the total outstanding debt of £743,000,000, about £47,000,000 consists of good assets, reducing the net liability to under £700,000,000.

Reduction of Debt between 1857 and 1885 (after adding the "special unremunerative" expenditure to the debt) a hundred millions, or an average of £3,500,000 a year.

Columns 1 and 2 are constructed on the basis of columns 1, 2, 3 and 6 of *P. P.* 227 of 1886. But that return only goes back to 1874, and it has been necessary, therefore, to work out the figures from 1857 to 1874 from several official returns.

# APPENDIX E.

## GROSS EXPENDITURE FROM 1857 TO 1885.

| Year. | War Services, including Indian Charges and Purchase. | Civil Administration. | Collection of Revenue. | Business. | Total Optional Expenditure. | Debt. | Total. | Special Expenditure as given in Statistical Abstract. | Grand Total. | Year. |
|---|---|---|---|---|---|---|---|---|---|---|
| 1857-58. | 22,546,000 | 9,022,000 | 2,547,000 | 2,771,000 | 36,886,000 | 28,627,000 | 65,513,000 | 4,866,000 | 70,379,000 | 1857-58. |
| 1858-59. | 20,797,000 | 9,110,000 | 2,621,000 | 2,826,000 | 35,354,000 | 28,527,000 | 63,881,000 | 783,000 | 64,664,000 | 1858-59. |
| 1859-60. | 24,892,000 | 9,686,000 | 2,491,000 | 2,936,000 | 40,005,000 | 28,639,000 | 68,644,000 | 858,000 | 69,502,000 | 1859-60. |
| 1860-61. | 28,302,000 | 9,708,000 | 2,481,000 | 3,076,000 | 43,567,000 | 26,231,000 | 69,798,000 | 3,044,000 | 72,842,000 | 1860-61. |
| 1861-62. | 28,169,000 | 9,777,000 | 2,568,000 | 3,023,000 | 43,537,000 | 26,143,000 | 69,680,000 | 1,437,000 | 71,117,000 | 1861-62. |
| 1862-63. | 27,635,000 | 9,961,000 | 2,440,000 | 3,034,000 | 43,070,000 | 26,232,000 | 69,302,000 | — | 69,302,000 | 1862-63. |
| 1863-64. | 25,459,000 | 9,675,000 | 2,440,000 | 3,010,000 | 40,584,000 | 26,212,000 | 66,796,000 | 260,000 | 67,056,000 | 1863-64. |
| 1864-65. | 25,281,000 | 9,160,000 | 2,488,000 | 2,989,000 | 39,118,000 | 26,369,000 | 66,287,000 | 175,000 | 66,462,000 | 1864-65. |
| 1865-66. | 24,064,000 | 9,405,000 | 2,500,000 | 2,948,000 | 38,917,000 | 26,233,000 | 65,150,000 | 765,000 | 65,915,000 | 1865-66. |
| 1866-67. | 25,352,000 | 9,707,000 | 2,481,000 | 3,159,000 | 40,699,000 | 26,082,000 | 66,781,000 | — | 66,781,000 | 1866-67. |
| 1867-68. | 26,587,000 | 10,385,000 | 2,481,000 | 3,211,000 | 42,664,000 | 26,572,000 | 69,236,000 | 2,000,000 | 71,236,000 | 1867-68. |
| 1868-69. | 26,367,000 | 10,870,000 | 2,576,000 | 3,542,000 | 43,355,000 | 26,618,000 | 69,973,000 | 5,000,000 | 74,973,000 | 1868-69. |
| 1869-70. | 23,323,000 | 11,033,000 | 2,558,000 | 3,597,000 | 40,511,000 | 27,054,000 | 67,365,000 | 1,300,000 | 68,865,000 | 1869-70. |
| 1870-71. | 22,887,000 | 11,963,000 | 2,573,000 | 3,949,000 | 41,372,000 | 26,827,000 | 68,199,000 | 1,350,000 | 69,549,000 | 1870-71. |
| 1871-72. | 25,762,000 | 12,160,000 | 2,578,000 | 4,049,000 | 44,549,000 | 26,840,000 | 71,389,000 | 101,000 | 71,490,000 | 1871-72. |
| 1872-73. | 24,956,000 | 11,750,000 | 2,594,000 | 4,609,000 | 43,909,000 | 26,805,000 | 70,714,000 | — | — | 1872-73. |
| 1873-74. | 25,421,000 | 12,731,000 | 2,676,000 | 4,935,000 | 45,763,000 | 26,707,000 | 72,470,000 | 3,997,000 | 76,467,000 | 1873-74. |
| 1874-75. | 25,779,000 | 13,558,000 | 2,695,000 | 5,077,000 | 47,109,000 | 27,094,000 | 74,203,000 | 125,000 | 74,328,000 | 1874-75. |
| 1875-76. | 26,143,000 | 14,676,000 | 2,694,000 | 4,888,000 | 48,401,000 | 27,444,000 | 75,845,000 | 777,000 | 76,622,000 | 1875-76. |
| 1876-77. | 27,114,000 | 14,929,000 | 2,766,000 | 5,151,000 | 49,960,000 | 27,993,000 | 77,953,000 | 172,000 | 78,125,000 | 1876-77. |
| 1877-78. | 27,091,000 | 15,624,000 | 2,688,000 | 5,088,000 | 50,491,000 | 28,413,000 | 78,904,000 | 3,500,000 | 82,404,000 | 1877-78. |
| 1878-79. | 30,696,000 | 16,599,000 | 2,791,000 | 5,160,000 | 55,246,000 | 28,644,000 | 83,890,000 | 1,518,000 | 85,408,000 | 1878-79. |
| 1879-80. | 27,177,000 | 16,923,000 | 2,784,000 | 5,213,000 | 52,097,000 | 28,763,000 | 80,860,000 | 3,246,000 | 84,106,000 | 1879-80. |
| 1880-81. | 27,362,000 | 17,449,000 | 2,850,000 | 5,372,000 | 53,033,000 | 29,575,000 | 82,608,000 | 500,000 | 83,108,000 | 1880-81. |
| 1881-82. | 28,166,000 | 18,084,000 | 2,841,000 | 5,681,000 | 54,772,000 | 29,666,000 | 84,438,000 | 1,035,000 | 85,473,000 | 1881-82. |
| 1882-83. | 27,821,000 | 18,892,000 | 2,871,000 | 6,058,000 | 55,642,000 | 29,679,000 | 85,321,000 | 4,395,000 | 89,716,000 | 1882-83. |
| 1883-84. | 18,749,000 | 18,772,000 | 2,772,000 | 6,936,000 | 57,229,000 | 29,651,000 | 86,880,000 | 1,000,000 | 87,880,000 | 1883-84. |
| 1884-85. | 32,088,000 | 19,041,000 | 2,745,000 | 7,126,000 | 60,995,000 | 29,548,000 | 90,543,000 | 550,000 | 91,093,000 | 1884-85. |
| 1885-86. | 31,807,000 | 19,364,000 | 2,752,000 | 7,270,000 | 55,193,000 | 23,450,000 | 84,643,000 | 9,701,000 | 94,344,000 | 1885-86. |

The "War Services" in 1860, 1878, 1884 and 1885 include considerable sums for special war expenditure met from the ordinary or supplemental grants. Many other years also similarly include smaller sums for war expenditure.

# GROSS REVENUE FROM 1857 TO 1885.

| Tax Revenue. | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year. | Customs and Excise, chiefly Indirect. | Other Taxes, chiefly Direct. | Total ax Rev. | Business Receipts, Post Office and Telegraphs. | Crown Lands (net). | Miscellaneous. | Grand Total of Revenue. | Gross Expenditure. | *Surplus.* | *Deficiency.* | Year. |
| 1857–58. | 40,934,000 | 22,154,000 | 63,088,000 | 2,920,000 | 276,500 | 1,597,000 | 67,882,000 | 70,379,000 | | *2,497,000* | 1857–58. |
| 1858–59. | 42,020,000 | 17,851,000 | 59,871,000 | 3,200,000 | 280,000 | 2,126,000 | 65,477,000 | 64,664,000 | *813,000* | | 1858–59. |
| 1859–60. | 44,821,900 | 20,693,600 | 65,515,500 | 3,310,000 | 284,500 | 1,800,000 | 71,090,000 | 69,502,000 | *1,558,000* | | 1859–60. |
| 1860–61. | 42,740,800 | 22,399,200 | 65,140,000 | 3,400,000 | 290,000 | 1,453,000 | 70,284,000 | 72,842,000 | | *2,558,000* | 1860–61. |
| 1861–62. | 42,006,000 | 22,116,000 | 64,122,000 | 3,510,000 | 295,000 | 1,747,000 | 69,674,000 | 71,116,000 | | *1,442,000* | 1861–62. |
| 1862–63. | 41,189,000 | 22,900,000 | 64,089,000 | 3,650,000 | 300,000 | 2,754,000 | 70,604,000 | 69,302,000 | *1,302,000* | | 1862–63. |
| 1863–64. | 41,439,000 | 21,619,000 | 63,058,000 | 3,810,000 | 305,000 | 3,036,000 | 70,209,000 | 67,056,000 | *3,153,000* | | 1863–64. |
| 1864–65. | 42,130,000 | 20,780,000 | 62,910,000 | 4,100,000 | 310,000 | 2,993,000 | 70,313,000 | 66,462,000 | *3,851,000* | | 1864–65. |
| 1865–66. | 41,064,000 | 19,300,000 | 60,364,000 | 4,250,000 | 320,000 | 2,878,000 | 67,812,000 | 65,914,000 | *1,898,000* | | 1865–66. |
| 1866–67. | 42,973,000 | 18,588,000 | 61,561,000 | 4,470,000 | 330,000 | 3,074,000 | 69,435,000 | 66,780,000 | *2,655,000* | | 1866–67. |
| 1867–68. | 42,812,000 | 19,227,000 | 62,039,000 | 4,630,000 | 345,000 | 2,586,000 | 69,600,000 | 71,236,000 | *1,636,000* | | 1867–68. |
| 1868–69. | 42,886,000 | 21,330,000 | 64,216,000 | 4,660,000 | 360,000 | 3,256,000 | 72,592,000 | 74,973,000 | | *2,381,000* | 1868–69. |
| 1869–70. | 43,292,000 | 23,792,000 | 67,084,000 | 4,770,000 | 375,000 | 3,205,000 | 75,434,000 | 68,865,000 | *6,569,000* | | 1869–70. |
| 1870–71. | 42,979,000 | 18,082,000 | 61,061,000 | 5,270,000 | 385,000 | 3,229,000 | 69,945,000 | 69,549,000 | *396,000* | | 1870–71. |
| 1871–72. | 43,652,000 | 21,186,000 | 64,838,000 | 5,435,000 | 375,000 | 4,060,000 | 74,708,000 | 71,490,000 | *3,218,000* | | 1871–72. |
| 1872–73. | 46,818,000 | 19,784,000 | 66,602,000 | 5,835,000 | 375,000 | 3,797,000 | 76,609,000 | 70,714,000 | *5,895,000* | | 1872–73. |
| 1873–74. | 47,511,000 | 18,565,000 | 66,076,000 | 7,002,000 | 375,000 | 3,883,000 | 77,336,000 | 76,467,000 | *869,000* | | 1873–74. |
| 1874–75. | 46,684,000 | 17,286,000 | 63,970,000 | 6,790,000 | 385,000 | 3,777,000 | 74,922,000 | 74,328,000 | *594,000* | | 1874–75. |
| 1875–76. | 47,646,000 | 17,607,000 | 65,253,000 | 7,195,000 | 395,000 | 4,289,000 | 77,132,000 | 76,622,000 | *510,000* | | 1875–76. |
| 1876–77. | 47,658,000 | 18,702,000 | 66,360,000 | 7,305,000 | 410,000 | 4,490,000 | 78,565,000 | 78,125,000 | *440,000* | | 1876–77. |
| 1877–78. | 47,433,000 | 19,446,000 | 66,879,000 | 7,460,000 | 410,000 | 5,014,000 | 79,763,000 | 82,403,000 | | *2,640,000* | 1877–78. |
| 1878–79. | 47,716,000 | 22,100,000 | 69,816,000 | 7,575,000 | 410,000 | 5,315,000 | 83,116,000 | 85,408,000 | | *2,292,000* | 1878–79. |
| 1879–80. | 44,626,000 | 23,200,000 | 67,826,000 | 7,770,000 | 390,000 | 5,279,000 | 81,265,000 | 84,106,000 | | *2,841,000* | 1879–80. |
| 1880–81. | 44,484,000 | 25,330,000 | 69,814,000 | 8,300,000 | 390,000 | 5,537,000 | 84,041,000 | 83,108,000 | *933,000* | | 1880–81. |
| 1881–82. | 46,527,000 | 24,930,000 | 71,457,000 | 8,630,000 | 380,000 | 5,355,000 | 85,822,000 | 85,473,000 | *349,000* | | 1881–82. |
| 1882–83. | 46,587,000 | 27,373,000 | 73,960,000 | 9,010,000 | 380,000 | 6,464,000 | 89,814,000 | 89,716,000 | *98,000* | | 1882–83. |
| 1883–84. | 46,653,000 | 26,025,000 | 72,678,000 | 9,475,000 | 380,000 | 5,852,000 | 88,085,000 | 87,880,000 | *205,000* | | 1883–84. |
| 1884–85. | 46,921,000 | 27,602,000 | 74,523,000 | 9,665,000 | 380,000 | 5,475,000 | 90,043,000 | 91,093,000 | | *1,050,000* | 1884–85. |
| 1885–86 | 45,287,000 | 30,332,000 | 76,619,000 | 9,890,000 | 380,000 | 5,812,000 | 91,701,000 | 94,344,000 | | *2,643,000* | 1885–86. |

The figures are given throughout in round numbers.
"Extra receipts" and "Indian contributions" included throughout; and Fee Stamps and Patents retained in the Tax Revenue.

# APPENDIX F.

## NET EXPENDITURE FROM 1857 TO 1885.

*Net* Amount of Ordinary Expend. incurred after Exclusion of Special War Expenditure, and taking credit for Receipts of all sorts.

| Year. | Debt. | | | War Services. | Civil Administration. | | | | Collection of Revenue. | Total Ordinary Expenditure incurred. | Business. | Grand Total. | Year. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Interest and Management. | Repayment of Capital. | Total. | | Education. | In aid of Local Taxation. | Imperial Cons. Fund, &c. | Total. | | | Excess of Receipts over Charges. | | |
| 1857–58 | 25,599,000 | 3,034,000 | 28,633,000 | 21,451,000 | 815,000 | 1,432,000 | 5,934,000 | 8,181,000 | 2,545.000 | 60,810,000 | *248,000* | 60,562,000 | 1857–58 |
| 1858–59 | 25,283,000 | 3,159,000 | 28,442,000 | 19,541,000 | 906,000 | 1,564,000 | 5,675,000 | 8,145,000 | 2,529.000 | 58,657.000 | *391,000* | 58,266,000 | 1858–59 |
| 1859–60 | 25,058,000 | 3,591,000 | 28,649,000 | 23,902,000 | 1,035,000 | 1,705,000 | 5,991,000 | 8,731,000 | 2,449,000 | 63,731,000 | *409,000* | 63,322,000 | 1859–60 |
| 1860–61 | 24,855,000 | 1,375,000 | 26,230,000 | 27,615,000 | 988,000 | 1,677,000 | 5,786,000 | 8,451,000 | 2,499,000 | 64,795,000 | *438,000* | 64,357,000 | 1860 61 |
| 1861–62 | 24,947,000 | 1,277,000 | 26,224,000 | 27,389,000 | 1,095,000 | 1,725,000 | 5,744,000 | 8,564.000 | 2,440,000 | 64,617,000 | *485,000* | 64,132.000 | 1861–62 |
| 1862–63 | 24,780,000 | 1,328,000 | 26,108,000 | 25,831,000 | 1,117,000 | 1,763,000 | 5,925,000 | 8,805,000 | 2,413,000 | 63,207,000 | *737,000* | 62,470,000 | 1862–63 |
| 1863–64 | 24,695,000 | 1,386,000 | 26,081,000 | 23 663.000 | 1,010.000 | 1,718,000 | 5,766,000 | 8,494,000 | 2,371,000 | 60,609,000 | *880,000* | 59,729,000 | 1863–64 |
| 1864–65 | 24,651,000 | 1,585,000 | 26,236,000 | 23,699,000 | 941.000 | 1,759,000 | 5,142,000 | 7,842,000 | 2,387,000 | 60,164,000 | *1,131,000* | 59,033,000 | 1864 65 |
| 1865–66 | 24,481,000 | 1,630,000 | 26,111,000 | 22,358,000 | 943,000 | 1,780,000 | 5,494,000 | 8,217,000 | 2,420,000 | 59,106,000 | *1,343,000* | 57,763,000 | 1865–66 |
| 1866–67 | 24,248,000 | 1,671,000 | 25,919,000 | 23,696.000 | 979,000 | 1,984,000 | 5,607,000 | 8,570,000 | 2,364,000 | 60,549,000 | *1,320,000* | 59,229,000 | 1866 67 |
| 1867–68 | 24,227,000 | 2,188,000 | 26,415,000 | 24,870,000 | 1,151,000 | 2,118,000 | 5,708.000 | 8,976,000 | 2,399,000 | 62,660,000 | *1,449,000* | 61,211,000 | 1867–68 |
| 1868–69 | 24,084,000 | 2,377.000 | 26,461,000 | 24,629,000 | 1,009,000 | 2,262,000 | 5,813,000 | 9,084,000 | 2,484,000 | 62,658,000 | *1,404,000* | 61,254,000 | 1868–69 |
| 1869–70 | 24,448,000 | 2,467,000 | 26,915,000 | 21,569,000 | 1,206,000 | 2,309,000 | 5,535,000 | 9,050,000 | 2,464,000 | 59,998,000 | *1,399,000* | 58,599,000 | 1869–70 |
| 1870–71 | 23,904,000 | 3,238,000 | 27,142,000 | 21,116,000 | 1,255,000 | 2,327,000 | 5,819,000 | 9,401,000 | 2,474,000 | 60,133,000 | *1,472,000* | 58,661,000 | 1870–71 |
| 1871–72 | 23,787,000 | 3,050,000 | 26,837,000 | 24,142,000 | 1,529,000 | 2,349,000 | 5,950,000 | 9,828,000 | 2,510,000 | 63,317,000 | *1,570,000* | 61,747,000 | 1871–72 |
| 1872–73 | 23,661,000 | 2,986,000 | 26,647,000 | 23,069,000 | 1,789,000 | 2,412,000 | 5,131,000 | 9,332,000 | 2,487,000 | 61,535,000 | *1,525,000* | 60,010,000 | 1872–73 |
| 1873–74 | 23,443,000 | 3,153,000 | 26,596,000 | 23,559,000 | 1,926,000 | 2,761,000 | 5,664,000 | 10,351,000 | 2,572,000 | 63,078,000 | *2,591,000* | 60,487,000 | 1873–74 |
| 1874–75 | 22,873,000 | 3,622,000 | 26,495,000 | 24,456,000 | 2,109,000 | 3,322,000 | 5,564,000 | 10,995,000 | 2,583,000 | 64,529,000 | *1,952,000* | 62,577,000 | 1874–75 |
| 1875–76 | 22,593,000 | 4,087,000 | 26,680,000 | 25,200,000 | 2,454,000 | 4,026,000 | 5,856,000 | 12,336,000 | 2,589,000 | 66,805,000 | *2,534,000* | 64,271,000 | 1875–76 |
| 1876–77 | 22,410,000 | 4,675,000 | 27,091,000 | 25,488,000 | 2,656,000 | 4,110,000 | 5,569,000 | 12,335,000 | 2,658,000 | 67,572,000 | *2,405,000* | 65,167,000 | 1876–77 |
| 1877–78 | 22,363,000 | 4,963,000 | 27,326,000 | 25,065,000 | 3,032,000 | 4,204,000 | 5,723,000 | 12,959,000 | 2,585,000 | 67,934,000 | *2,694,000* | 65,241,000 | 1877–78 |
| 1878–79 | 22,360,000 | 5,053,000 | 27,413,000 | 25,764,000 | 3,380,000 | 4,769,000 | 5,703,000 | 13,852,000 | 2,682,000 | 69,711,000 | *2,918,000* | 66,793,000 | 1878–79 |
| 1879–80 | 22,155,000 | 5,195,000 | 27,350,000 | 25,251,000 | 3,427,000 | 4,973,000 | 5,734,000 | 14,134,000 | 2,701,000 | 69,436,000 | *2,891,000* | 66,545,000 | 1879–80 |
| 1880–81 | 22,196,000 | 5,973,000 | 28,169,000 | 24,626,000 | 3,697,000 | 4,915,000 | 5,930,000 | 14,542,000 | 2,766,000 | 70,103,000 | *3,239,000* | 66,864,000 | 1880–81 |
| 1881–82 | 21,978,000 | 6,339,000 | 28,317,000 | 24,998,000 | 3,793,000 | 5,096,000 | 6,106,000 | 14,995,000 | 2,765,000 | 71,075,000 | *3,249,000* | 67,826,000 | 1881–82 |
| 1882–83 | 21,606,000 | 6,564,000 | 28,170,000 | 25,376,000 | 3,921,000 | 5,764,000 | 6,298,000 | 15,983,000 | 2,790,000 | 72,319,000 | *3,287,000* | 69,032,000 | 1882–83 |
| 1883–84 | 21,524,000 | 6,667,000 | 28,191,000 | 26,451,000 | 4,058,000 | 5,576,000 | 6,242,000 | 15,876,000 | 2,679,000 | 73,197,000 | *2,902,000* | 70,295,000 | 1883–84 |
| 1884–85 | 21,322,000 | 6,974,000 | 28,296,000 | 27,014,000 | 4,376,000 | 5.649,000 | 6,233,000 | 16,258,000 | 2,662,000 | 74,230,000 | *2,932,000* | 71,298,000 | 1884 85 |
| 1885–86 | 20,860,000 | 999,000 | 21,859,000 | 29,834,000 | 4,582,000 | 5,775,000 | 6,131,000 | 16,488,000 | 2,675,000 | 70,856,000 | *2,987,000* | 67,869,000 | 1885–86 |

# APPENDIX G.

## GROSS EXPENDITURE FROM 1791 TO 1885.

| Year. | Army and Ordnance. | Navy | Total War Services. | Administration, including Consolidated Fund. | Revenue Collection. | Business. | Total Optional Expenditure. | Debt. | Grand Total. | Extra Expenditure not included in former Columns. | Year. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1791–92 | 2,912,000 | 3,337,000 | 6,249,000 | 2,649,000 | | | 8,898,000 | 9,439,000 | 18,337,000* | | 1791–92 |
| 1801–02 | 20,085,000 | 17,258,000 | 37,343,000 | 5,560,000 | 1,995,000 | 393,000 | 45,291,000 | 19,852,000 | 65,143,000 | 309,000 | 1801–02 |
| 1814–15 | 49,638,000 | 22,801,000 | 72,439,000 | 5,837,000 | 3,949,000 | 654,000 | 82,879,000 | 30,004,000 | 112,883,000 | 34,409 | 1814–15 |
| 1817–18 | 11,079,000 | 6,623,000 | 17,702,000 | 5,040,000 | 3,878,000 | 648,000 | 27,268,000 | 31,458,000 | 58,726,000 | | 1817–18 |
| 1820–21 | 10,070,000 | 6,648,000 | 16,718,000 | 5,417,000 | 3,677,000 | 594,000 | 26,406,000 | 32,022,000 | 58,428,000 | | 1820–21 |
| 1825–26 | 9,153,000 | 5,849,000 | 15,002,000 | 5,813,000 | 3,439,000 | 606,000 | 24,860,000 | 29,238,000 | 54,098,000 | | 1825–26 |
| 1830–31 | 8,605,000 | 5,310,000 | 13,915,000 | 4,922,000 | 3,179,000 | 694,000 | 22,710,000 | 29,236,000 | 51,946,000 | | 1830–31 |
| 1835–36 | 7,558,000 | 4,100,000 | 11,658,000 | 4,489,000 | 3,005,000 | 679,000 | 19,831,000 | 28,619,000 | 48,450,000 | | 1835–36 |
| 1840–41 | 8,522,000 | 5,598,000 | 14,120,000 | 5,256,000 | 2,833,000 | 865,000† | 23,074,000 | 29,467,000 | 52,541,000 | 703,249 | 1840–41 |
| 1842–43 | 8,163,000 | 6,640,000 | 14,803,000 | 5,631,000 | 2,767,000 | 967,000† | 24,168,000 | 29,577,000 | 53,745,000 | 1,356,000 | 1842–43 |
| 1846–47 | 9,061,000 | 7,804,000 | 16,865,000 | 6,308,000 | 2,888,000 | 1,129,000† | 27,190,000 | 28,258,000 | 55,448,000 | | 1846–47 |
| 1853–54 | 9,425,000 | 6,640,000 | 16,065,000 | 7,226,000 | 2,784,000 | 1,408,000† | 27,483,000 | 28,055,000 | 55,538,000 | 260,000 | 1853–54 |
| 1855–56 | 32,007,000 | 19,655,000 | 51,662,000 | 8,679,000 | 2,871,000 | 1,662,000† | 64,874,000 | 28,113,000 | 92,987,000 | | 1855–56 |
| 1858–59 | 12,512,000 | 8,285,000 | 20,797,000 | 9,110,000 | 2,621,000 | 2,826,000 | 35,354,000 | 28,527,000 | 63,881,000 | 783,000 | 1858–59 |
| 1860–61 | 14,970,000 | 13,332,000 | 28,302,000 | 9,708,000 | 2,481,000 | 3,076,000 | 43,567,000 | 26,231,000 | 69,798,000 | 3,044,000 | 1860–61 |
| 1865–66 | 13,804,000 | 10,260,000 | 24,064,000 | 9,403,000 | 2,500,000 | 2,948,000 | 38,917,000 | 26,233,000 | 65,150,000 | 765,000 | 1865–66 |
| 1870–71 | 13,430,000 | 9,457,000 | 22,887,000 | 11,963,000 | 2,573,000 | 3,949,000 | 41,372,000 | 26,826,000 | 68,198,000 | 1,350,000 | 1870–71 |
| 1875–76 | 15,079,000 | 11,064,000 | 26,143,000 | 14,676,000 | 2,694,000 | 4,888,000 | 48,401,000 | 27,444,000 | 75,845,000 | 777,000 | 1875–76 |
| 1880–81 | 16,659,000 | 10,703,000 | 27,362,000 | 17,449,000 | 2,850,000 | 5,372,000 | 53,033,000 | 29,575,000 | 82,608,000 | 500,000 | 1880–81 |
| 1885–86 | 18,847,000 | 12,960,000 | 31,807,000 | 19,364,000 | 2,752,000 | 7,270,000 | 55,193,000 | 23,450,000 | 84,643,000 | 9,701,000 | 1885–86 |

Accounts each year made up to January till 1853–54; after that to March. * Net expenditure, and including £1,384,000, the Irish expenditure.
Before 1858 Coast-guard service included in Revenue collection, then transferred to Navy. Amount in 1856 was £486,000.
† In these years the whole of the cost of the Packet Service was included in the Navy expenditure. The amount was about £350,000 in 1840, £400,000 in 1842, £540,000 in 1846, £835,000 in 1853, and £755,000 in 1855.

## GROSS REVENUE FROM 1791 TO 1885.

| Year. | Customs and Excise. | Other Taxes, including Fee Stamps. | Total Tax Revenue. | Business and Crown Lands (net). | Miscellaneous. | Grand Total. | Year. |
|---|---|---|---|---|---|---|---|
| 1791–92 | 13,826,000 | 4,543,000 | 18,369,000 | 394,000 | 1,213,000 | 19,976,000* | 1791–92 |
| 1801–02 | 22,682,000 | 13,702,000 | 36,384,000 | 1,252,000 | 1,450,000 | 39,086,000 | 1801–02 |
| 1814–15 | 44,300,000 | 29,094,000 | 73,394,000 | 2,201,000 | 2,292,000 | 77,887,000 | 1814–15 |
| 1817–18 | 36,570,000 | 17,709,000 | 54,279,000 | 2,058,000 | 1,264,000 | 57,601,000 | 1817–18 |
| 1820–21 | 41,480,000 | 15,161,000 | 56,641,000 | 2,056,000 | 1,195,000 | 59,892,000 | 1820–21 |
| 1825–26 | 41,334,000 | 13,095,000 | 54,429,000 | 2,235,000† | 1,137,000 | 57,801,000 | 1825–26 |
| 1830–31 | 39,376,000 | 12,716,000 | 52,092,000 | 2,204,000† | 222,000 | 54,518,000 | 1830–31 |
| 1835–36 | 36,400,000 | 11,136,000 | 47,536,000 | 2,237,000† | 294,000 | 50,067,000 | 1835–36 |
| 1840–41 | 38,259,000 | 11,519,000 | 49,778,000 | 1,492,000 | 415,000 | 51,685,000 | 1840–41 |
| 1842–43 | 36,187,000 | 12,248,000 | 48,435,000 | 1,718,000 | 969,000 | 51,122,000 | 1842–43 |
| 1846 47 | 37,209,000 | 17,711,000 | 54,920,000 | 2,104,000 | 1,270,000 | 58,294,000 | 1846–47 |
| 1853–54 | 38,810,000 | 16,220,000 | 55,030,000 | 2,926,000 | 1,141,000 | 59,097,000 | 1853–54 |
| 1855–56 | 40,345,000 | 25,247,000 | 65,592,000 | 3,059,000 | 1,158,000 | 69,809,000 | 1855–56 |
| 1858–59 | 42,020,000 | 17,851,000 | 59,871,000 | 3,480,000 | 2,126,000 | 65,477,000 | 1858–59 |
| 1860–61 | 42,741,000 | 22,399,000 | 65,140,000 | 3,690,000 | 1,453,000 | 70,283,000 | 1860–61 |
| 1865–66 | 41,064,000 | 19,300,000 | 60,364,000 | 4,570,000 | 2,878,000 | 67,812,000 | 1865–66 |
| 1870–71 | 42,979,000 | 18,082,000 | 61,061,000 | 5,655,000 | 3,229,000 | 69,945,000 | 1870–71 |
| 1875–76 | 47,646,000 | 17,607,000 | 65,253,000 | 7,590,000 | 4,289,000 | 77,132,000 | 1875–76 |
| 1880–81 | 44,484,000 | 25,330,000 | 69,814,000 | 8,690,000 | 5,537,000 | 84,041,000 | 1880–81 |
| 1885–86 | 45,287,000 | 30,332,000 | 75,619,000 | 10,270,000 | 5,812,000 | 91,701,000 | 1885–86 |

* Account for Great Britain made up to October 1792, and for Ireland to March, 1792. "Customs and Excise include Irish Crown Lands.
† No Crown Lands.

Accounts for 1791–92 net; after that gross.
Accounts each year, made up to January till 1853–54, after that to March.

# APPENDIX H.

## EXPENDITURE ON ADMINISTRATION, 1801 TO 1885.

| Year. | I. Works and Buildings. | II. Salaries and Expenses. | III. Law and Justice. | IV Education. | V. Foreign and Colonial Services. | VI. Non-Effective and Charitable. | VII. Miscellaneous. | Total, Civil Service. | Consolidated Fund and other Administrative Expenditure. | Total. | Year. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1801-02. | 85,600 | 70,400 | 57,800 | 62,100 | 165,700 | 322,200 | 40,100 | 803,900 | 4,756,400 | 5,560,300 | 1801-02. |
| 1820-21. | 262,700 | 520,800 | 376,500 | 83,400 | 300,300 | 452,200 | 318,100 | 2,314,000 | 3,103,300 | 5,417,300 | 1820-21. |
| 1830-31. | 398,900 | 504,300 | 266,500 | 75,700 | 308,300 | 224,600 | 160,800 | 1,939,100 | 2,982,900 | 4,922,000 | 1830-31. |
| 1840-41. | 246,500 | 744,900 | 576,700 | 265,200 | 302,400 | 161,000 | 226,900 | 2,523,600 | 2,732,600 | 5,256,200 | 1840-41. |
| 1850-51. | 504,300 | 1,007,000 | 1,168,700 | 445,300 | 399,600 | 195,600 | 136,400 | 3,856,900 | 2,901,300 | 6,758,200 | 1850-51. |
| 1855-56. | 768,200 | 1,323,000 | 2,550,700 | 827,900 | 343,800 | 222,100 | 889,200 | 6,930,900 | 1,748,500 | 8,679,400 | 1855-56. |
| 1860-61. | 639,700 | 1,425,000 | 2,484,100 | 1,233,300 | 451,600 | 237,400 | 940,700 | 7,411,800 | 2,296,400 | 9,708,200 | 1860-61. |
| 1865-66. | 651,600 | 1,540,800 | 2,994,600 | 1,279,300 | 544,600 | 353,700 | 156,400 | 7,521,000 | 1,883,700 | 9,404,700 | 1865-66. |
| 1867-68. | 724,400 | 1,731,400 | 3,021,200 | 1,597,400 | 544,700 | 400,200 | 294,100 | 8,491,400 | 1,893,900 | 10,385,000 | 1867-68. |
| 1872-73. | 1,077,700 | 1,818,300 | 3,853,000 | 2,223,200 | 628,400 | 518,600 | 56,000 | 10,175,200 | 1,575,000 | 11,750,000 | 1872-73. |
| 1874-75. | 1,326,800 | 2,107,400 | 4,622,300 | 2,603,800 | 663,900 | 520,600 | 129,300 | 11,974,100 | 1,583,600 | 13,557,700 | 1874-75. |
| 1877-78. | 1,365,600 | 2,590,300 | 5,025,800 | 3,581,800 | 654,600 | 699,100 | 65,400 | 13,982,600 | 1,641,600 | 15,624,200 | 1877-78. |
| 1880-81. | 1,446,400 | 2,581,900 | 5,922,400 | 4,288,200 | 607,000 | 1,211,200 | 51,600 | 15,778,700 | 1,669,800 | 17,448,500 | 1880-81. |
| 1883-84. | 1,808,900 | 2,418,700 | 6,314,800 | 4,766,100 | 658,100 | 1,176,400 | 39,000 | 17,182,000 | 1,589,600 | 18,771,600 | 1883-84. |
| 1885-86. | 1,766,700 | 2,442,900 | 6,236,000 | 5,268,400 | 673,100 | 1,212,400 | 126,300 | 17,725,800 | 1,638,400 | 19,364,200 | 1885-86. |

The separate totals for each class are, to a considerable extent, misleading, as many transferences have from time to time been made from one to the other, as well as from other Departments and the Consolidated Fund, to the Civil Service estimates.

The receipts of the Civil Departments (including "stamps" collected by the I. L. R. Depart.), formerly taken in deduction of the grants, have largely increased of late years.

The local grants, included under different classes, have increased from 1¼ millions in 1857 to 5¾ millions in 1885.

# APPENDIX J.

THE TOBACCO DUTIES—THE LAND TAX—LICENCE DUTIES.

One or two of the existing taxes have come but incidentally into the narrative; and it will be well to say a few words about them in order to complete the history of the different taxes of the United Kingdom.

## I.—THE TOBACCO DUTIES.

The use of tobacco was first introduced into England about the middle of the sixteenth century.* The "weed" soon came into extensive use, and, in the time of James the First, was taxed at the rate of 6*s.* 10*d.* the pound.† After the Restoration, snuff-taking somewhat superseded smoking, at least among the fashionables, but snuff after a time again gave place to universal smoke—"from the palace to the hovel."

It was chiefly in order to diminish tobacco smuggling and the frauds on the revenue by means of the drawback—the gross revenue being three-quarters of a million, and the net produce of the tax only yielding £160,000—that Walpole introduced his "Excise Bill" of 1733, which cost him his popularity, and would have resulted in his ejection from office, if, sorely against his

* Whether the honour of actually introducing tobacco should be given to Sir W. Raleigh—as popular opinion has it—or to Sir John Hawkins, Raleigh only bringing smoking into fashion, is still a moot point. In the *Calendar of Treasury Papers* (1702–7, p. 258) appears a curious document, which seems to support the former theory; a petition of Philip Raleigh, Esq., to the Lord High Treasurer, in which he states that he was "grandson and sole heir to Sir Walter Raleigh, who did so many considerable services to his country, and first brought hither tobacco, which now yields a prodigious revenue to the Crown." James I.—as is known from his *Counterblaste against Tobacco*—his son, Cromwell, and Charles II. disliked smoking, yet in spite of this courtly disfavour the habit continued to grow.

† See Dowell, iv. 268, &c.

will, he had not relinquished his proposal.* His idea was to follow out the policy he had already successfully adopted in the case of tea, and to transfer the chief responsibility for the collection of the tobacco duties from the Custom to the Excise Department, with its more stringent provisions and powers.† The proposal was adopted and re-introduced by Pitt in 1789, when tobacco was subjected both to Customs supervision on import and to Excise supervision after being taken out of bond. Of the duty of 1*s.* 3*d.*, 6*d.* was charged as a Customs, and 9*d.* as an Excise duty.‡ Ultimately, the customs warehousing system was brought to greater perfection, and the supervision over and the collection of the duty on tobacco, with that on other articles of import, was wholly transferred to the Customs department, the licence duty on the manufacture of tobacco and snuff alone remaining as an Excise duty.

Just before the great war, the duty on manufactured tobacco stood at 3*s.* 6*d.* for foreign (Spanish and Portuguese Colonies), and at 1*s.* 3*d.* for Colonial (Irish and American) tobacco, and the yield was about £400,000. The duties were increased during the war, and again in 1819, when they stood at 4*s.* on Colonial and American

* Tobacco was grown in England during the first quarter of the seventeenth century, but for the sake of the revenue it was at first heavily burdened and then prohibited, the prohibition being extended to Ireland at the Restoration. In 1799 permission was again given for it to be grown in Ireland, for it was thought that this industry at all events would not "materially interfere with the commercial interests of Great Britain." (19 Geo. III. c. 35.) The restriction was re-imposed in 1832.

Now, again, tobacco is to be allowed to be grown. In 1886, for the first time, appeared a small item for excise duty on home-grown tobacco; 84 lbs. were charged at 3*s.* 6*d.* a lb., and produced £14 14*s.* It would probably be a splendid thing for the agricultural interest if tobacco could be profitably grown in England and Ireland; and those firms and individuals who have been experimenting in the matter deserve great credit for their enterprise. An equivalent excise duty must of course be charged if the experiments lead to practical results and the cultivation of tobacco develops into an industry, but it certainly is a pity that the Inland Revenue Department should, by premature interference and demands for duty, risk strangling with red tape the goose with the golden eggs.

† See *I. 23 n.*

‡ The price of tobacco in bond (according to McCulloch, writing in 1844, *Com. Dict.*) about this time varied between 3*d.* to 6*d.* a lb.; the duty was 3*s.*, or a burden of 600 per cent. on the value of superior, and no less than 1,200 on inferior qualities of tobacco. He goes on to state that half the tobacco consumed in Ireland, and a third of that consumed in England, was smuggled. "The smuggler was able to supply tobacco from 2*s.* 6*d.* to 2*s.* 9*d.* a lb., whereas the duty alone on tobacco legitimately imported is no less than 3*s.*" So high in the good old days were the rewards offered to "informers" of smuggling, that it was given in evidence before Hume's Committee of 1844, that "there was no doubt that many people informed against their own tobacco to get the reward offered by the Customs." (See Porter, p. 574, &c.) The great reduction of duty on manufactured tobaccos, made in 1863, put an end to extensive smuggling.

tobacco, and 6*s.* on foreign. These high duties led to reduced consumption and increased smuggling. From 18 million lbs. in 1818, the consumption of duty-paying tobacco fell in 1824 to 16¾ millions. In 1825 the duty was unintentionally—through a clerical error in drafting—reduced by 1*s.* a lb. The consumption of duty-paying tobacco immediately increased, and the Chancellor of the Exchequer had the good sense to leave the duty at the reduced figure. In 1826 the duty on foreign was reduced to that on Colonial tobacco.

Yet smuggling went merrily on, and its evils were recognized by all financial authorities; and, in 1831, the Government unsuccessfully proposed to reduce the tobacco duties. In 1840 the Whigs added their 5 per cent. levy to tobacco, making things worse than before. Peel, in 1842, slightly altered the duties on tobacco and snuff, but without practically reducing them.* For the next twenty years no further change was made. In 1863† the duty on manufactured tobacco was reduced in order to diminish smuggling, still very rampant, and the duty on unmanufactured tobacco was slightly increased. The duties were then fixed at 5*s.* instead of 9*s.* 5½*d.* on "segars," at 4*s.* 6*d.* on "Cavendish" or "Negro-head," and at 4*s.* on other unmanufactured tobacco‡; and on unmanufactured tobacco at 3*s.* 6*d.* and 3*s.* 2*d.*, according to whether the tobacco was saturated with less or more than 10 per cent. of moisture. Snuff was charged with a duty of 3*s.* 9*d.* to 4*s.* 6*d.* per lb. These duties were increased in 1878 by 4*d.* on unmanufactured tobacco, on Cavendish and on snuff, and by 6*d.* on cigars;‖ duties which, fiscally unsound,** were remitted in 1887, while at the same time the law against the adulteration—especially the "watering"—of tobacco was made much more stringent.††

The tobacco duty has been one of the steadiest and most

* Tobacco, manufactured, 9*s.*; unmanufactured, 3*s.*; snuff, 6*s.* per pound, plus the 5 per cent. duty of 1840.

† See *I. p. 300.*

‡ The manufacture in England of Cavendish and Negro-head had previously been prohibited, it was now permitted.

‖ 4*d.* in 1878, and 2*d.* in 1879.

** See *I. 303.*

†† The laboratory of the Inland Revenue Department was established in 1842 for the purpose of analysing samples of tobacco with a view to checking adulteration, "there being but few manufacturers who did not resort to the practice . . . from 50 to 70 per cent. of foreign matter being, not unfrequently, introduced into the manufactured article" (I. & R. Report, 1870, p. 134).

profitable branches of revenue. From a consumption of 0·86 lbs. per head in 1870, yielding a revenue of 3½ millions, it rose gradually and uninterruptedly to a consumption of 1·49 lbs. per head in 1877, when the revenue reached £8,000,000. Since then the consumption has varied between 1·45 and 1·42 lbs. The receipts from the duty in 1886 amounted to £9,400,000.

## II.—THE LAND TAX.

The Land Tax* in its present form was imposed in 1692. Originally imposed in combination with a tax on personal property and a tax on salaries, that portion of the tax representing a charge on personalty, gradually almost entirely disappeared; and, in 1798, this, the "figment of a tax," was distinguished from the rest of the land tax and separately charged. It was repealed in 1833.† The land tax proper was, at its creation, assessed on the then rental of the real property of the kingdom, and distributed among the different counties in proportion to their supposed wealth. Originally fixed at four shillings in the pound, to produce about two millions a year, it varied during the first hundred years of its existence between one shilling and four.‡ The tax was annually imposed until 1798, when Pitt made it perpetual at the latter rate.‖ The proportion of local charge has practically never since been altered, and the consequence has been that, in urban districts, where wealth has increased enormously, the land tax has sunk to an infinitesimal fraction of charge on the rental;

* See for history of land tax Inland Revenue Reports, 1857, 1870, and 1885, especially that of 1870 (p. 108); Dowell, ii. 50, iii. 93; *P. I. and E. Return*, ii. p. 419, &c.; Macaulay's Account of the Imposition of the Land Tax, iii. 607; Adam Smith, 370, &c.

† The duties on "profits of offices and pensions," the last relic of the "personal" part of the original land tax, continued until its repeal in 1876, when they were producing under £1,000 a year. In Ireland, in lieu of the tax on pensions and salaries, an "absentee" tax of 6*s.* in the pound—on landowners, property holders, and salaried officers who did not reside, for six calendar months in the year, in Ireland—was imposed in the reign of Queen Anne, but was unfortunately repealed at the time of the Union. McCulloch in a somewhat curious paper in his *Treatises on Economic Policy*, argues that absenteeism is "not really injurious" to the country.

‡ It was in order to avoid doubling the land tax, then reduced to 1*s.*, that Walpole plundered the original sinking fund. (See *II. 208.*)

‖ For a few years, near the end of the last century, the land tax was, as a local tax, applied directly towards meeting the charge of the militia, a local charge.

while, in some agricultural districts, it still remains an appreciable factor in the consideration of the purchase of land.*

When redistributing and making the tax a permanent one, Pitt also provided for its redemption at the option of the landed proprietor. Under this and amending Acts about £860,000 of the tax has been redeemed, leaving outstanding an annual payment of just over a million. The half-yearly collection of both the Land Tax and the Inhabited House Duty was changed to a yearly collection by Mr. Lowe in 1869.

## III.—LICENCE DUTIES.

The licences—other than the old "assessed taxes" the game and dog duty, and the railway duty, which have been fully dealt with †—may be divided into two classes:—The first, those required for the manufacture or for the sale of intoxicating liquors; the second, those required for dealing with articles, other than intoxicants, still charged with custom or excise duty, together with a duty on the manufacture of tobacco.

The first class of licences opens up the whole field of "liquor laws," and the "drink question"; and it would be interesting, but apart from our purpose, to trace the statutes under which they have been granted. The necessity of a Justices licence to those who kept "common alehouses" or other houses called "tippling houses" dates from the time of Edward VI.; and from then, until 1830, no excise licence could be granted without an antecedent justices licence. From the middle of the fifteenth century there has been constant legislation and constant change in the licensing system, in the scale of duties, and in the mode of assessment.

The licences on the manufacture are those on the brewers and distillers; the licences on sale are those on beer, wine and spirit

* The unredeemed land tax quota, for instance, on Surrey, is £66,000 a year; the assessment of the county which in 1803 was a million, by 1867 had risen to five and a quarter millions. Sub-division makes the matter worse. In Liverpool, the quota unredeemed was in the year 1853, £95 9*s.* 2½*d.* In that year an assessment made at the rate of ¼*d.* in the pound, produced about £1,450, sufficient to pay the quota for 15 years. (See C. 82, 1870, p. 114.)

† For assessed taxes, see *II. 83*; for gun tax, *II. 103*; for game licences, *I. 205*; for dog tax, *II. 84*; for railway duty, *II. 309*.

and cider dealers. The licences for the sale of intoxicants combine the advantage of supervision for the benefit of public order, with the production of a considerable revenue. The regulations under which the licences are held are partly police and partly fiscal.* The total number of persons in the United Kingdom in possession of these licences in 1886 was 35,000, and the revenue derived from their licences came to £1,870,000.

The licences are many and various.

There are in the United Kingdom no less than twenty-four different "intoxicating liquor licences," in addition to the four spirit retailers' licences, which depend on the value of the premises. There are wholesale and retail licences; licences for "strong beer" and for "table beer;" a licence can cover the sale of a single article or can combine the sale of all three intoxicants; there are "early-closing" and "Sunday" licences. There is one licence permitting the liquor "to be consumed on the premises"—the curious invitation to the wayfarer that appears outside small pot-houses, that the publican apparently is "licensed to be drunk on the premises"—there is another under which it is "not to be consumed on the premises."

The other licences not already mentioned,† date some from the time of Queen Anne, while others were imposed by Pitt, who extended the principle of charging a licence on the preparation or sale of exciseable articles. The existing licences are on manufacturers and dealers in tobacco and snuff; licences for dealing in game; licences to solicitors, bankers, auctioneers, appraisers, and house agents; licences to hawkers and pedlars; dealers in plate, pawnbrokers, patent medicine vendors; and to playing-card makers, of which there are but twenty-six, paying between them £26 a year to the revenue.

### *Stamp Duties.*

There are a few small stamp duties that have not been already mentioned—on patent medicines,‡ on cards, and on gold and

* C. 82, 1870, p. 53.

† Gun, game licences, and the dog tax.

‡ The Act of 1812, under which the duty is still charged, applies to "all other pills, powders, lozenges, tinctures, &c. to be used or applied externally or internally

silver plate. The first produces as much as £180,000, while 20,000 persons are licensed to sell these universal health revivers.

The duty on gold and silver plate is at the rate of 17*s.* an ounce on gold, and 1*s.* 6*d.* on silver, but there are a considerable number of articles exempted from the latter duty. The goods are marked with the "hall mark" after assay and payment of duty.*

as medicines or medicaments for the prevention, cure, or relief of any disorder or complaint incident to or in anywise affecting the human body, wherein the person making, preparing, uttering, vending, or exposing to sale the same, hath or claims to have any occult secret or art for the making or preparing the same, or hath or claims to have any exclusive right or title to the making or preparing the same." Each packet, box, &c., has a Government stamp affixed to it. The licence duty varies between £2 and 5*s.*, the stamp duty is an *ad valorem* one, and ranges from 1½*d.* to £1.

It is to be feared, though the Inland Revenue Commissioners clearly state the contrary on their stamps, that the Government stamp on these commodities too often induces ignorant and credulous persons to believe that the Government guarantee the efficiency of the "medicine," or at least its harmlessness. A new form of stamp less open to this objection was introduced in 1885.

* The assay is a guarantee of the quality of the metal as shown by different marks. The practice of hall-marking foreign-made watch-cases leads to foreign watches being "frequently sold as of British manufacture." Report of Committee of 1878 (May, 1879.) See the I. R. Comms., 1857 (p. 24, &c.), for an account of the mode of "assay" and the signification of the different marks impressed on the plate.

# APPENDIX K.

## THE INCOME TAX.

The different schedules, the various rates of charge, and the property assessed to the tax are thus given in the official return for 1886 (*P. P.* 317 of 1887) :—

| INCOME TAX. | | Rate of Tax on Incomes of £150 a Year and upwards, Year 1886—87. | Net Amount of Property and Income Assessed, Year 1885—86. | |
|---|---|---|---|---|
| | | | £. | |
| Schedule (A) | In respect of lands, tenements, &c. | 8*d.* in the £. | 178,004,328 | |
| Schedule (B) | In respect of the occupation of lands : England . . | $\frac{7}{8}$ of 4 *d.* ,, | 25,419,000 | |
| | Scotland and Ireland. . | 3 *d.* ,, | 6,101,919 | |
| | In respect of nurseries and market gardens . . . | 8 *d.* ,, | 155,118 | |
| | In respect of composition for tithes and tithes leased . . . | 2$\frac{3}{4}$ *d.* ,, | . . | 16,578,456 2 6$\frac{1}{2}$ |
| Schedule (C) | In respect of annuities, dividends, &c. . . . | 8 *d.* ,, | 42,088,711 | |
| Schedule (D) | In respect of professions, trades, employments, railways, mines, Ironworks, &c. | 8 *d.* ,, | 247,353,026 | |
| Schedule (E) | In respect of salaries, public offices, &c. . . | 8 *d.* ,, | 30,290,853 | |

The following are the rates in the pound at which the income tax has stood since its original imposition in 1799, together with

the changes that have taken place in the exemptions and abatements :—

| Total Receipt. £ | | |
|---|---|---|
| (av.) 6,000,000 | 1799–1801 | @ 24*d.* on incomes above £60; between £60 and £200 there was a sliding scale of abatement. |
| | 1802 | Repealed. |
| 5,340,000 | 1803 | Re-imposed at 12*d.* on incomes above £60; between £60 and £150 there was a sliding scale of abatement. |
| 4,100,000 | 1804 | Ditto. |
| 6,430,000 | 1805 | Raised to 15*d.* |
| 12,822,000 | 1806 | Raised to 24*d.*, and levied on all incomes above £50, with abatement on certain incomes between £50 and £150. |
| 15,640,000 (in 1815) | 1807—15 | Ditto. |
| | 1816 | Repealed. |
| (av.) 5,500,000 | 1842—44 | For three years at 7*d.* on incomes above £150. |
| (av.) 5,800,000 | 1845—47 | ,, ,, ,, |
| (av.) 5,750,000 | 1848—50 | ,, ,, ,, |
| 5,850,000 | 1851 | For one year ,, ,, |
| 5,930,000 | 1852 | ,, ,, ,, |
| 7,210,000 | 1853 | Re-imposed for seven years at 7*d.* above £150; at 5*d.* between £100 and £150; and extended to Ireland. |
| 14,360,000 | 1854 | Raised to 14*d.* above and to 10*d.* below £150. |
| 16,550,000 | 1855 | ,, 16*d.* ,, 11½*d.* ,, |
| 16,910,000 | 1856 | Until a year after the end of the war. |
| 7,900,000 | 1857 | Reduced to 7*d.* above incomes of £150 and 5*d.* between £100 and £150. |

Since 1857 the tax has been an Annual tax.

| | | |
|---|---|---|
| 5,760,000 | 1858 | @ 5*d.* for all. |
| 10,420,000 | 1859 | Raised temporarily for one year at 9*d.* and 6½*d* |
| 11,630,000 | 1860 | Raised to 10*d.* and 7*d.* |
| 10,990,000 | 1861 | Reduced to 9*d.* and 6*d.* |
| 11,250,000 | 1862 | @ 9*d.* and 6*d.* |

On all incomes above £100, with an abatement of £60 under £200

| | | |
|---|---|---|
| 9,000,000 | 1863 | @ 7*d.* |
| 8,260,000 | 1864 | @ 6*d.* |
| 5,760,000 | 1865 | @ 4*d.* |
| 5,920,000 | 1866 | @ 4*d.* |
| 7,640,000 | 1867 | @ 5*d.* |
| 9,240,000 | 1868 | @ 6*d.* |
| 7,880,000 | 1869 | @ 5*d.* |
| 6,660,000 | 1870 | @ 4*d.* |
| 10,360,000 | 1871 | @ 6*d.* |

On all incomes above £100, with abatement of £80 up to £300.

| | | |
|---|---|---|
| 7,230,000 | 1872 | @ 4*d.* |
| 5,770,000 | 1873 | @ 3*d.* |
| 3,990,000 | 1874 | @ 2*d.* |
| 4,030,000 | 1875 | @ 2*d.* |
| 5,890,000 | 1876 | @ 3*d.* |

On incomes of £150 a year and upwards, with abatement of £120 on incomes below £400.

| Total Receipt. £ | | |
|---|---|---|
| 5,940,000 | 1877 | @ 3*d.* |
| 9,820,000 | 1878 | @ 5*d.* |
| 9,750,000 | 1879 | @ 5*d.* |
| 11,830,000 | 1880 | @ 6*d.* |
| 10,150,000 | 1881 | @ 5*d.* |
| 13,510,000 | 1882 | @ 6½*d.* |
| 10,670,000 | 1883 | @ 5*d.* |
| 12,720,000 | 1884 | @ 6*d.* |
| 16,700,000 | 1885 | @ 8*d.* |
| — | 1886 | @ 8*d.* |
| — | 1887 | @ 7*d.* |
| — | 1888 | @ 6*d.* |

The amount of income tax received from the respective rates in the £ is taken from the Report of I. L. R. Commissioners of 1870, p. 184, and of 1885, p. 252.

# APPENDIX L.

## DIRECT AND INDIRECT TAXATION.

THE subjoined table may be interesting as showing the proportions that now exist between direct and indirect taxation. The income tax is taken at 7*d.*—the old normal amount; the rest of the revenue is on the basis of the taxation in force in 1886.

*Direct taxation* may be defined as taxation on individual (or corporate) income, expenditure or property, which the taxpayer has to pay himself, and which he can by no possibility transfer to the shoulders of anyone else. Of such a nature are the income tax, the "death duties," the inhabited house duty and the land tax, the "establishment charges" (on carriages,* armorial bearings, servants), the game and gun licences and the dog tax, and a portion of the "stamp" duties, those namely on deeds and other instruments.

*Indirect taxation* may be defined as taxation which, paid in the first instance by the trader, is, by some process of trade, by increased price or by diminished value, ultimately recovered from the consumer. It takes the form of duties on intoxicants; on tobacco; on tea, coffee, and dried fruits; on patent medicines, plate, and playing cards; together with the licence duties imposed on the manufacturers and retailers of these articles.

Thus, direct taxation is practically taxation on property; indirect taxation, taxation on consumption.

In addition to that which is specifically "direct" or "indirect," there is a third form of taxation which it is difficult to class under either the one head or the other, the probability being

* That portion of the carriage tax levied on carriages for hire, is mostly passed on to the user.

that while the first payer continues to bear a portion of the charge, he manages to shift a portion on to the shoulders of other persons. Of such a nature are the licence duties on auctioneers, pawnbrokers, solicitors, and bankers; together with the business "stamp" duties and the railway duty.

Though it is interesting thus to divide the revenue into so-called direct and so-called indirect taxation, such a division scarcely serves any very useful purpose; nor does it, except very superficially, and not only superficially but fallaciously, show the real ultimate incidence of taxation under our fiscal system, as between the classes and the masses.* It does show, however, to a considerable extent, where the first weight of taxation falls; and generally, I suppose, it may be said that while the first burden of direct taxation falls on the rich, the severity of indirect taxation is felt by the poor.†

The poor man in every purchase he makes pays for his very poverty; he pays more highly because he cannot afford to buy largely; he pays more heavily because he cannot afford to buy of the best. The indirect taxation of the country is almost of necessity, probably with the best fiscal results, levied more or less at the same rate on the different qualities of the same article; and the inevitable result is that the duty is far more burdensome on the cheaper than on the costlier articles.‡ To

* Elaborate calculations have from time to time been made of the proportionate amount of taxation contributed by different classes of the community. I do not myself think that it is possible either to distinguish class from class, or, if distinguished, to say with the smallest degree of accuracy how much of the revenue they each ultimately contribute.

See for these calculations especially Levi's *Wages and Earnings of the Working Classes* (1885); Dudley Baxter's *The Taxation of the United Kingdom* (1869); Malet's *The National Income and Taxation* (1885); Mr. W. Holmes' Speech, *H.*, April 19, 1877, republished in pamphlet form. But these authorities are themselves unable to agree on any common ground of comparison. See also *Economist*, Feb. 14, and Feb. 21, 1885; Giffen's *Progress of the Working Classes* (1883), and *Further Notes* on same (1886); Mr. H. Fowler, *H.*, July 9, 1885; Childers' Budget Speech, 1885, *H.*, April 30; Noble's *National Finance* (1875), &c., &c.

† It has been well said, that taxation to one man means merely an additional cheque on his bankers, to another the distinct deprivation of some pleasure, comfort or even necessity. The old saw is still very true in regard to the actual suffering or discomfort caused by the burden of taxation, that while taxation bears very hardly on the poor, it bears hardly at all on the rich.

‡ "Coffee, sugar, and tobacco, and fermented liquors," said Mill, "can hardly be so taxed that the poor shall not pay more than their fair share of the burden." On intoxicants there is but one duty for each description, with the exception of wine, on which there are two (and now, 1888, three). On tobacco the duty varies between 3*s.* 6*d.* a lb. on manufactured tobacco, and 5*s.* 6*d.* on cigars, with six grades in all. Inferior

remedy this inequality, if for no other purpose, and to redress the balance between the richer classes and the poor classes, it is essential to levy heavy direct taxation.

Indirect taxation of necessity interferes more than direct with processes of trade, and with freedom of commerce; is more costly and difficult of collection, and ultimately falls more heavily on the consumer.* Direct taxation causes the minimum of disturbance, uncertainty and hindrance to trade.

I. *Direct Taxation.*†

| | £ |
|---|---|
| *Income Tax* (at 7*d.*) | 13,820,000 |
| *Death Duties* (including Corporation Duty) | 7,434,000 |
| *Stamps* (deeds and other instruments) | 2,006,000 |
| *Excise* ("Establishment Charges," including game, gun, and dog licences) | 1,360,000 |
| *Land Tax* | 1,065,000 |
| *House Duty* | 1,954,000 |
| | £27,639,000 |

tobacco practically pays a duty amounting to about 1,000 per cent. of its value, the best sort of cigars only some 10 to 20 per cent. On tea there is but one duty; and the same on dried fruits. An attempt was made by Althorp to classify tea according to value, and to charge a different duty on each of the three classes introduced; but this system did not succeed, though it can scarcely be said to have had an adequate trial. The Select Committee on Customs of 1851 and 1852 stated that they "had strong evidence in the case of tea (before the last change), sugar, and nutmegs, showing how difficult it is to assess duties varying on different classes of the same article, because the natural desire of the importer is to introduce articles of the very highest quality admissible under the lowest rate of duty" (p. xvi.) Goulburn, Lewis, and Gladstone were all on the Committee. It stands to reason that a single duty must be far less costly to collect, and far less vexatious to the trade than any system of classification.

* Mr. Cliffe Leslie has well summed up the economical disadvantages of custom duties. "It involves the State in a series of dilemmas, with only a choice of great evils. It must either grant unrestricted liberty of importation and exportation to every spot along the coast, and along the rivers of the kingdom, thereby entailing an enormous army of tax-collectors and intolerable cost of collection, or it must limit direct foreign trade to selected places, thereby disturbing the natural order of things and obstructing the development of numerous localities. It must either exact immediate payment of the duties on importation, thereby wasting capital, harassing merchants, and mulcting consumers, or it must establish the system of bonding and encounter a fresh dilemma between covering the kingdom with warehouses and Custom officials, or confining the advantages of bonding unfairly to particular places." Cobden Club Paper, *Financial Reform* (1871, p. 217).

† The amounts here given are taken from the *Finance Accounts* of 1886 (*P. P.* 204 of 1887). The figures represent the actual net produce in the financial year 1886–7, and do not correspond exactly with the Exchequer receipts as given in the Budget tables; the difference between the two is, however, very small.

## II. *Indirect Taxation.*

| | £ |
|---|---|
| *Customs* (all) | 20,138,000* |
| *Excise and Inland Revenue* (with the exception of the railway duty, establishment licences, and gun, game, dog, auctioneer, hawkers', and pawnbrokers' licences) | 23,493,000† |
| *Stamps* (patent medicines, gold and silver plate and cards) | 268,000‡ |
| | £43,899,000 |

## III. *Neutral Taxation.*

| | £ |
|---|---|
| *Excise* (railway duty, auctioneers', hawkers', and pawnbrokers' licences) | 459,000‖ |
| *Stamps* (bills of exchange, receipts, drafts, bankers' notes, insurance, &c.) | 2,104,000 |
| | £2,563,000 |

Grand total £74,000,000.

* Tobacco, £9,367,000; tea, £4,514,000; spirits, £4,217,000; wine, £1,128,000; currants, £311,000; raisins, £166,000; figs, £37,000; coffee, £190,000; cocoa, £74,000; chicory, £66,000; beer, plate, plums, prunes, and other articles, together with certain charges, £68,000.

† Spirits, £12,852,000; beer, £8,496,000; liquor licences, £2,000,000; tobacco licences, £85,000; chicory, coffee mixture, labels, medicine vendors, &c., £61,000.

‡ Patent medicines, £179,500; plate, £72,800; cards, £15,700.

‖ Railway duty, £317,000; licences, £142,000.

# APPENDIX M.*

## TABLE SHOWING DIFFERENCE OF BURDEN OF DEATH DUTIES ON PERSONALTY AND REALTY.†

*Value of Property.*

1. Land, net value, £10,000 ; net rental, £300.
   If successor is 35‡ years of age he pays duty on £4,724 12*s.* 6*d.*
2. (a). £10,000 Charged on Land.
   (b). £10,000, Settled Personalty.
3. £10,000, Free Personalty.

*Amount of Death Duties Payable.*

| By Lineals. | By Brothers, &c. |
|---|---|
| 1. £47 4*s.* 9*d.*, succession duty, by eight half-yearly instalments. | 1. £141 14*s.* 3*d.*, succession duty, by eight half-yearly instalments. |
| 2. (a.), (b.) £100, legacy or succession duty. | 2. (a.), (b.) £300, legacy or succession duty. |
| 3. £300, probate duty. | 3. £300, probate duty, and £300, legacy duty. |
| **By Cousins, &c.** | **By Strangers.** |
| 1. £236 3*s.* 9*d.*, succession duty by eight half-yearly instalments. | 1. £472 7*s.* 6*d.*, succession duty by eight half-yearly instalments. |
| 2. (a.), (b.) £500, legacy or succession duty. | 2. (a.), (b.) £1,000, legacy or succession duty. |
| 3. £300, probate duty, and £500, legacy duty. | 3. £300, probate duty, and £1,000, legacy duty. |

The present value of £47 4*s.* 9*d.*, payable by eight half-yearly instalments, is, approximately, £42 8*s.*|| Thus :—

*On descent to lineals :—*

Land worth £10,000 net pays £42 8*s.* Personalty of the same value pays £100 if settled or charged on land, and £300 if free.

*On descent to brothers :—*

Land worth £10,000 net pays £127 4*s.*

Personalty of the same value pays £300 if settled or charged on land, and £600 if free.

* For this table I am indebted to Mr. George Barnes.

† See also *Imperial Taxation on Real and Realized Personal Property.* *P. P.* 345 of 1885.

‡ The age of 35 years has been taken as an average age of succession : a successor four years old pays duty on £5,786 8*s.* (the highest amount) ; sixty years of age on £2,916 3*s.* ; ninety-five years of age on £193 13*s.*

|| Interest for the purpose of ascertaining present values has been computed at 4 per cent.

*On descent to cousins:—*

Land worth £10,000 net pays £212.
Personalty of the same value pays £500 if settled or charged on land, and £800 if free.

*On descent to strangers:—*

Land worth £10,000 pays £424.
Personalty of same value pays £1000 if settled or charged on land, and £1300 if free.

By the Customs and Inland Revenue Bill of 1888 it is proposed to add a half per cent to the rate of succession duty payable by lineals, and one and a half per cent. to that payable by other than lineal successors. This change will increase the anomalies which exist among the death duties at present payable on personal property, and will do practically nothing towards equalising the duties payable on real and personal property respectively.

Thus, if in the future a testator gives by his will a legacy of £10,000 to one brother, and appoints under a settlement a legacy of £10,000 in favour of another brother, the first brother will be liable to pay £300 legacy duty only, but the second brother will be liable to pay £450 succession duty.

The Bill further proposes to enable successors to real property to pay the duty with which they are chargeable by two equal moieties, the first to be paid by four equal yearly instalments, and the second moiety on the day for payment of the last instalment of the first moiety. The table below shows the changes contemplated:—

| | Amount of Present Duty. | Amount of Proposed Duty. |
|---|---|---|
| *Lineals* | £47 4*s.* 9*d.*<br>Present value, £42 8*s.* | £70 17*s.* 1½*d.*<br>Present value, £62 1*s.* 6*d.** |
| *Brothers* | £141 14*s.* 3*d.*<br>Present value, £127 4*s.* | £212 11*s.* 4½*d.*<br>Present value, £185 19*s.* 6*d.* |
| *Cousins* | £236 3*s.* 9*d.*<br>Present value, £212. | £307 0*s.* 10½*d.*<br>Present value, £268 5*s.* 6*d.* |
| *Strangers* | £472 7*s.* 6*d.*<br>Present value, £424. | £543 4*s.* 7½*d.*<br>Present value, £474 13*s.* 6*d.* |

* The present value of the first moiety is £31 16*s.*, of the second moiety £30 5*s.* 6*d.* The other present values in this column are calculated in the same manner.

# APPENDIX N.

## Prime Ministers and Chancellors of the Exchequer Between 1783 and 1887.

| Date. | Prime Minister. | Chancellor of the Exchequer. |
|---|---|---|
| Dec. 1783 . | William Pitt. | William Pitt. |
| Mar. 1801 . | Henry Addington (Lord Sidmouth). | Henry Addington. |
| May, 1804 . | William Pitt. | William Pitt. |
| Feb. 1806 . | Lord Granville. | Lord H. Petty (Marquis of Lansdowne). |
| Mar. 1807 . | Duke of Portland. | Spencer Perceval. |
| Nov. / Dec. 1809 . | Spencer Perceval. | ,, |
| May / Jun. 1812 . | Earl of Liverpool. | N. Vansittart (Lord Bexley). |
| Jan. 1823 . | ,, | F. J. Robinson (Lord Goderich and Earl of Ripon). |
| Apr. 1827 . | George Canning. | George Canning. |
| Aug. 1827 . | Viscount Goderich. | J. C. Herries. |
| Jan. 1828 . | Duke of Wellington. | Henry Goulburn. |
| Nov. 1830 . | Earl Grey. | Viscount Althorp (Earl Spencer). |
| May, 1832 . | ,, | ,, ,, |
| July, 1834 . | Viscount Melbourne. | ,, ,, |
| Dec. 1834 . | Sir Robert Peel. | Sir Robert Peel. |
| Apr. 1835 . | Viscount Melbourne. | Thomas Spring Rice (Lord Monteagle). |
| Aug. 1839 . | ,, | F. T. Baring (aft. Bart.). |
| Aug. / Sept. 1841 . | Sir Robert Peel. | Henry Goulburn. |
| July, 1846 . | Lord J. Russell. | Charles Wood (after Bart., and Lord Halifax). |
| Mar. 1851 . | ,, | ,, ,, ,, |
| Feb. 1852 . | Earl of Derby. | B. Disraeli. |
| Dec. 1852 . | Earl of Aberdeen. | W. E. Gladstone. |
| Mar. 1855 . | Viscount Palmerston. | Sir G. C. Lewis. |
| Feb. 1858 . | Earl of Derby. | B. Disraeli. |
| June, 1859 . | Viscount Palmerston. | W. E. Gladstone. |
| Oct. 1865 . | Earl Russell. | ,, |
| July, 1866 . | Earl of Derby. | B. Disraeli (Earl of Beaconsfield). |
| Feb. 1868 . | B. Disraeli. | G. Ward Hunt. |
| Dec. 1868 . | W. E. Gladstone. | R. Lowe (Viscount Sherbrooke). |
| Aug. 1873 . | ,, | W. E. Gladstone. |
| Feb. 1874 . | B. Disraeli (Earl of Beaconsfield). | Sir S. Northcote (Earl of Iddesleigh). |
| Apr. 1880 . | W. E. Gladstone. | W. E. Gladstone. |
| Apr. 1883 . | ,, | H. C. E. Childers. |
| July, 1885 . | Marquis of Salisbury. | Sir M. Hicks-Beach. |
| Jan. 1886 . | W. E. Gladstone. | Sir W. V. Harcourt. |
| July, 1886 . | Marquis of Salisbury. | Lord R. Churchill. |
| Jan. 1887 . | ,, | G. J. Goschen. |

# INDEX.



## A.

ABYSSINIA, King of, imprisons Europeans and Special Envoy, 1866, 38 ; war declared 1867, 38 ; estimated expenditure on, 39 ; miscalculation of cost, 40 ; cost how met, 43, 45, 81, 99.
Accounts. *See* Public Accounts.
Admiralty. *See* Navy.
Adullamites, their chastisement, 1867, 11
Afghanistan, the question of a resident, 263 ; war, 264 ; murder, Cavagnari, 265 ; confusion, 265 ; Abdurrahman Amir, 265 ; dispute with Russia, 265, 314 ; cost of the war, 266 ; gross underestimate, 266 ; contribution from England, 289. (*See* Vol. I.)
"After-adjustment," meaning of the term, 40 *n.* (*See* Vol. I., 259 *n.* ; 292 *n.*)
*Alabama*, claims by American Government against England for damage by Confederate cruisers, 148 ; history of negotiations, 131, 149 ; arbitration, 149 ; damages, 149 ; how met, 151. 153 ; effect of arbitration on Liberal Government, 168 ; Sir J. Coleridge on, 168 *n.* (*See* Vol. II.)
America, arbitration with on Alabama claims : Commission formed 1872, 120 *n.* ; liability denied by Lord Russell, 1863, 148 ; Lord Stanley proposes arbitration, 1866, 148 ; negotiations broken off, 148 ; revived 1869 by Lord Clarendon, again broken off by Sumner, 149 ; resumed 1871, Lord de Grey (Ripon) and Sir S. Northcote, Commissioners, 149 ; finally settled at Geneva Conference, 1872, 149. (*See* Vol. I.)
Annuities, terminable, system explained, 28 ; history of from 1692, 29 ; life annuities established, 1808, 29 ; creation of, latterly, by conversion of Savings'-banks stocks, 30 ; objections to terminable annuities, 31 ; most advantageous form of sinking fund, 31 ; arrangement of 1883, 305 ; suspended, 1885, 307 ; system violated 1887, 33, 307 ; value of terminable not formerly calculated, 202 *n.*, 203 *n.*
Army : reduction of expenditure by Liberal Government 1869, 59, 99 ; reorganisation after Crimean War, 60 ; of 1869, 61 ; new Parliamentary offices, Surveyor-General of Ordnance and Financial Secretary to War Office, created, 61 ; troops withdrawn from colonies, 63 ; short service established, 64, 67 ; reserve, attempts of Sidney Herbert and General Peel, 64 ; success of Cardwell's scheme, 65, 67 ; localisation scheme, territorial regiments and linked battalions, 66 ; costliness of the reforms, 68, 133 ; purchase abolished, 68 ; cost of, 69, 133, 155 ; increased expenditure since 1870, 76, 99 ; Gathorne Hardy's administration, 196, 225 ; increase of pay, 196 ; deferred pay, 196 ; end of peace expenditure, 231 ; expenditure on, 1869–73, 155 ; 1873–7, 232 ; 1873–80, 271 ; 1880–4, 312 ; scandals in connection with, 320 ; reduction in numbers in 1869, increase again in 1870, 132 ; Indian accounts, Appendix A. (*See* Vol. I.)
Arbitration. *See* Alabama.
Assessed taxes, history of, 83 ; reduction of by half, 1823, 83 ; reform of by Gladstone, 1853, 83 ; changed by Lowe into licence duties, 82, 84 ; paid prospectively, not retrospectively, 85 ; satisfactory results, 88–91 ; remissions in 1869–70, 91. (*See* Vol. I.)

## B.

BALANCES, Exchequer, 91, 226 *n.* (*See* Vol. I.)
Ballot Act, passed 1872, 57 ; obstruction to in 1871, 130.
Bank Charter, history of, 14 ; renewed from time to time, 14 ; suspension of cash payments, 1797, 15 ; resumption, 15 ; 1*l.* and 2*l.* notes withdrawn in Eng-

land and Ireland, 1826, 15; publicity of accounts enforced by Government, 1834, 15; sweeping alterations on renewal, 1844, 15; issue of notes restricted, 1844, 16; suspension of Bank Act, 1847, 1857, 1866, 17; history of crises of those years, 18. (*See* Vol. I.)
Bank of England, formation of, 14, 201; effect of new system of collection on 1869, 90. (*See* Vol. I.)
Baxter, Dudley, on debt, 204 *n.*
Bankruptcy Act, passed 1869, 57.
Beer, tax on, proposed increase 1885, 315. *See* Malt. (*See* Vol. I.)
Belgium, neutrality of, draft secret treaty between France and Prussia, 114; English treaty with France and Prussia, 1870, 116.
Berlin, Treaty of, 241.
Boom, the, 100, 136.
Black Sea, repudiation of Treaty of Paris by Russia, 1870, 116; conference of 1871, 117; effect on Liberal Government, 131.
Brewers' licences, change in, 284. (*See* Vol. I.)
Bright, John, speech on Reform, 1867, 12 *n.*, 58 *n.*: on Expenditure, 1868, 129 *n.*; on Conciliation *re* Alabama dispute, 148; on Free Breakfast Table, 107; takes office, President Board of Trade, 56. (*See* Vol. I.)
Budget, Tables of 1858–86—*See* Appendix C.; Disraeli's, 1867, 35; reduction of debt by conversion of Savings'-bank stock into terminable annuities, 27; Ward Hunt's, 1868, 42; miscalculation of Income Tax, 42 *n.*; 2*d.* added to Income Tax, 43; Lowe's, 1869, 77; reduction of naval and military expenditure, 81, 99; alteration in collection of income tax, 82; licence duties substituted for assessed taxes, 83; his speech on, 97; results of, 100–1; of 1870, 98; prosperous conditions, 98; surplus of 4 millions, 103; gun tax, 103; further conversion of Savings'-bank stock, 104; consolidation of stamp duties, 107; 1*d.* income tax remitted, 108; sugar duty reduced one-half, 108; of 1871, 119; gross under-estimate of revenue, 120; Lowe's cardinal error, 119; match tax, increase of income tax, and legacy and succession duties proposed, 122; *ex luce lucellum*, 124 *n.*; collapse of Budget, 127, 129; of 1872, 141; "Prosperity" Budget of 1873, 146; estimated surplus, 147; remissions given, 152; 1874, new system of estimates of revenue, 178; surplus 5½ millions, 180; sugar and horse duties abolished, 183, 187–8;



1875, hopes and promises falsified, 192; sinking fund, 217; 1876, deficit met by direct taxation, 227–8–9; 1877, no fiscal changes, 230; period of peace expenditure ends, comparison of 1877 with 1873, 231; 1878, 242; vote of credit 6 millions, 242–4; heavy deficit to meet—imposition of taxation, 246; 1879, war expenditure, issue of exchequer bonds, vote of credit for Zulu war, increasing liabilities, 251; no further taxation, 255, 260; 1880, nearly 10 millions of liabilities, probate duties raised, sinking fund increased, 256, 261; 1880, Gladstone's Budget, 275; malt tax, 276; 1881, death duties simplified, 290, 292; 1882, Gladstone's 13th and last Budget, 298; 1883, Childers and terminable annuities, 304; 1884, attempt to reduce interest on national debt, 304; 1885, 314; deficit of 15 millions—increased taxation, 314; Government defeated on Budget and resign, 316; the Opposition and indirect taxation, 317; Hicks-Beach at Exchequer—8*d.* income tax, 318; 1886, Harcourt, 318 *n.*; 1887, Goschen, 318 *n.*; change in system of forming estimates for, 178. (*See* Vol. I.)
Business Department. *See* Post Office and Telegraph.

C.

Cab. *See* Hackney Carriage.
Campbell, Lord, on Disraeli's speeches 36 *n.*
Canada, Imperial loan to, for defences, 62 *n.* (*See* Vol. I.)
"Captain," loss of the, 1871, 134
Cardwell, at War Office, reorganizing the army, 1869, 61; withdraws troops from Colonies, 62; army reserve established on short service basis, 65; success of his reforms, 67. *See* Army.
Carnarvon, Lord, resigns on Reform Bill, 1867, 12; again in 1878, 269
Carriage Tax, History of, 94–7, altered by Gladstone, 1853, 94; license duties substituted for, 1869, 95; subsequent alterations, 95 *n.* *See* Hackney Carriage. (*See* Vol. I.)
Cattle plague, of 1865–6, 14, 34
Cave of Adullam, 9
Chancellor of Exchequer, history of office, 274 *n.*; list of, Appendix N. *See* Disraeli, Hunt, Lowe, Northcote, Childers, Gladstone.
Chicory, 145. (*See* Vol. I.)
Childers, at Admiralty, 1869, speech on reforms, 73 *n.*; at Exchequer, 1883,

275; and War Office, 1880, 68, 299. *See* Budgets.
Church Rates abolished, 1868, 5 *n.*
Civil Service competition, examination for, 57; Estimates, increase of 1869, 80, 101. *See* also pp. 232–272. (*See* Vol. I.)
Clarendon, Lord, Foreign Secretary, 1866, 8; letter on commercial crisis of 1866, 21
Clerkenwell outrage, 1867, 14
Coal, alarm felt at increased consumption, 1866, 24; supply of, in relation to reduction of National Debt, 26–7; London Dues, 8. (*See* Vol. I.)
Coinage, attempted rehabilitation, 310
Coffee, duty on reduced one half, 1872, 144; remarkable decrease in consumption of, 145
Collection of Revenue. *See* Appendix B.
Colonies, policy of withdrawing troops carried out, 1869, 62
Commercial Treaty, French, and wine duties, 276, 289. (*See* Vol. I.)
Conservatives, Government of 1866–8, pp. 34–52; reform policy, 11; increased expenditure on armaments, 35, 41; growth of expenditure and taxation, depression of trade, 1867, 41; war liabilities not met, 44; increased expenditure, 46; dealings with the income tax, 47; defeat on Irish Church, 1868, 54; dissolution and general election, 55; return to office, 1874, 176; Government of 1874–80, 176, 273; foreign policy, 268; legislation, 269; changes in *personnel* of Government, 269; finance, 271. *See* Disraeli, Eastern Question. (*See* Vol. I.)
Consolidated Fund. *See* Appendix B. (*See* Vol. I.)
Consols. *See* Funds.
Corn, wheat 83*s.* qr., December, 1867, 41 *n.*; in April, 1870, 42*s.*, 100 *n.*; registration, duty on, abolished by Lowe, 1869, 93. (*See* Vol. I., Corn Laws.) Arguments for and against abolition, 93, 159
Crisis, commercial of 1825, 1847, 1857, and 1866, 18. (*See* Vol. I.)
Customs duties. *See* Appendix B. (*See* Vol. I.)

D.

Death Duties, Lowe's proposals, 122; Gladstone on, 167; increase in, as rectifying incidence of income tax, 173–4; history of, 292; changes in probate duty, 295; in legacy duty, 296. *See* Appendix M. (*See* Vol. I.)
Debt, National, history of, 200; rise and progress of, 202; debt in 1856, 203; in 1886, 204; reduction of, test of financial policy, 22; Pitt's loans, 202; how



raised, 202 *n.*; question of reduction, 205, 221; names of different stocks, 204 *n.*; diminution of debt charge, 1859–65, 23; falling in of "dead weight" annuity, 23; coal scare and Gladstone's proposals, 1866, 24; Disraeli's conversion of Savings Bank Stock into terminable annuities, 1867, 27; explanation of the system of terminable annuities, 33; Lowe's reductions, 1869–73, 160; compared with Northcote's, 232, 273; effect of change of system of estimate in 1874, on redemption, 179; effect on of absorption of interest from local loans, 182; Northcote on reduction, 252; debt charge between 1873–77, 232; arrangement in reference to terminable annuities of 1883, 304; Conversion scheme of 1884, 307; of 1888, 308. Appendix D. *See* Sinking Fund, Annuities. (*See* Vol. I.)
Deficiencies, 40 *n.*; 192 *n.* (*See* Vol. I.)
Deficit of 1867 and 1868, 41, 42; estimated for 1871, 120; of 1877, 1878 and 1879, 247, 250–259; of 1885, 314
Derby, Earl of, Premier, 1866, 10; resigns 1868, 53. *See* Stanley. (*See* Vol. I.)
Disraeli, B. (Earl of Beaconsfield), Leader of House and Chancellor of Exchequer, 1866, 10; a period of humiliation, 11; Budget of 1867, 35; Premier, 1868, 12, 53; falsifies professions of economy, 35, 41; as a financial speaker, 36; defeated on Irish church, April, 1868, 54; dissolves, 55; resigns, 56; speeches at Aylesbury on Gladstone's finance, July, 1865, 23 *n.*; on expenditure, 1866, 34; on Sinking Fund, 32 *n.*; on Gladstone's speeches, 6 *n.*, Budget, 1867, 36; on income tax, 189, 228 *n.*; on Fenians, 1868, 13 *n*; on the Liberal Government, 1872, 129 *n.*; on public speaking, 135 *n.*; Bath letter, 1873, 168 *n.*; on Trades Unions, 1875, 268; returns to power, 1874, 176; financial measures, 1874, 189; becomes Lord Beaconsfield, 1876, 233; threatens Russia, 239; on reciprocity, 268; on agricultural depression, 267 *n.*; dissolution, 1880, 269; defeat of and resignation, 270; death of, 1881, 301
Distress of country, 224, 267. (*See* Vol. I.)
Dog Tax, license duty substituted for, 1867, 84; history of, 84 *n.*; raised in 1878, 248
Duties. *See* Customs, Excise, Stamps.

E.

Eastern Question, 235, 237–43, 270
Economy, National, neglected in 1866–7,

35, 41, 46; and the income tax, 49; proposals of the Conservative Government of 1868, 78; economy effected by the Liberal Government, 58, 154; reduction not always economy, 59; economy of 1871 & 1872, 142; Lowe on, 154 *n.* (*See* Vol. I.)
Education, Act of 1870, passed, 57, 168; increasing cost of, 156, 232, 272, 312
Elasticity of revenue. *See* Revenue.
Egypt, interference in, 236; Cave mission, 262; deposition of Khedive, dual control, 262; finances of, 262 *n.*; affairs of, 1881–5, 303; cost of campaign of 1882, 301
Election of 1865, no dividing line of parties, 1; of 1869, Liberal majority of, 55; Disraeli resigns, 55, 56 *n.*; of 1874, a budget address, 164; Conservative majority, 176; of 1880, Liberal majority, 270 *n.*; of 1885, 303; of 1886, 304
Endowed Schools Act, passed 1869, 57
Estimates, system of, before 1874, 178; since 1874, 179; effect on redemption of debt, 179. (*See* Vol. I.)
Exchequer Bonds, issued in anticipation of taxes, 31, 43. (*See* Vol. I.) The system of "spreading" in 1878–80, 251, 252.
Exchequer and Audit Act, 6
Excise. *See* Appendix B. (*See* Vol. I.)
Expenditure, growth of under Conservative administrations, 35, 41, 44, 46, 197, 231, 246, 251, 255; increase, 1880–84, 311; Gladstone's views on, 58; Disraeli's, 59 *n.*; Naval and Military, reduction of, 1869, 81, 99, 146; Civil Service, increase of, 101; expansion of, worst feature of last few years, 319. *See* Appendix B.; Appendix E. gross expenditure 1857–85; Appendix F. net expenditure 1857–85; Appendix G. gross expenditure 1791–85; Appendix H. cost of administration 1801–1885. (*See* Vol. I.)
Exports and Imports, 136. (*See* Vol. I.)

F.

Fawcett, H., on purchase of telegraphs, 50 *n.*
Fenianism, first signs of, 1865, 13: Disraeli, on, 13 *n.*; attempt on Chester Castle, Manchester murders, Clerkenwell outrage, 1867, 14; Habeas Corpus Act suspended, 13
Finance Accounts, no sure guide. Appendix A.
Finance Committee of 1828, 29 *n.*, 214
Foreign affairs, complications in, 1867, 110; Spanish successions, 1868, 113; Russia and neutrality of Black Sea, 116;



Eastern Question, 1877, 235–241; Russo-Turkish War, 39; Franco-German War, 113; English neutrality, 131, 239; between 1880–84, 302. *See* Eastern Question. Russia. (*See* Vol. I.)
Foreign Policy, unpopularity of Gladstone's, 1870, 131; Lord Beaconsfield's, 239, 241 *n.*
Foreign Loans, increase of, 1869, 136, 138 *n.*; collapse of credit, 139; enquiry of Select Committee, 138 *n.*
Franco-German War, declared July 15, 1870, 110; causes of, 113; progress of, 114; Lowe a victim of, 117; effect on English trade, 118
Free breakfast-table, 108, 187.
Funds, 20 *n.*, 202 *n.*, 307, 308. (*See* Vol. I.)

G.

Gibson, Milner, at Board of Trade under Palmerston, 3; loses seat, 55 *n.*
Gladstone, W. E., becoming gradually leader of the Liberal Party, 1; attitude on Irish Disestablishment, 2; defeated at Oxford, 1865, 2; his financial speeches, 6; leads House of Commons 1865, 9; defeated on reform 1866, 10 *n.*; retires temporarily from leadership, 12; debt proposals, 1866, 27; declares for Irish Church Disestablishment 1868, 54; defeated in Lancashire 1869, 55; Prime Minister, November, 1868, 56; on expenditure, 58; Foreign policy; speech at Mansion House, 1870, 131 *n.*; his Irish University Bill 1873, 162; defeat, 163; resignation and resumption of office, 163; takes the Chancellorship of the Exchequer, changes in the Ministry, 163; suddenly dissolves Parliament, January, 1874, 164; his budget address, 165; proposes total repeal of Income Tax, 165; his defeat and its causes, 167–9; his views on Income Tax, 171, 173; returns to power 1880, and takes triple duties, 274; Budget of 1880, 275; commutes malt tax, 284; simplifies death duties, 295; Budget, 1881, 290; Budget, 1882, 298; resigns Chancellorship of the Exchequer, 299; as a financier, 299; Premier for third time, 1886, defeat and resignation, 304. (*See* Vol. I.)
Gold and silver plate, duty on. Appendix J.
Goschen, G. J., returned for City, 1; First Lord of the Admiralty, 1873, 147 *n.*; on the Budget of 1879, 253; invades system of terminable annuities, 33; reduces new sinking fund, 221; Budget of 1887, 318; conversion scheme 1888, 308; proposed wheel tax, 95 *n.*

Government, Russell's, 1865, 8 ; Derby's, 1866, 10, 34 ; Disraeli's, 1868, 54 ; Gladstone's, 1869, 56 ; Disraeli's, 1874, 176 ; Gladstone's, 1880, 274 ; Salisbury's, 1885, 303 ; Gladstone's, 1886, 304 ; Salisbury's, 1886, 304
Graham, Sir J., first admiralty reformer 1831, 70, 71 *n.* (*See* Vol. I.)
Granville, Earl of, Foreign Secretary 1868, 56 ; reply to Russia, *re* Black Sea Question, 116 ; successful diplomacy, 131
Gun tax, imposed by Lowe, 1870, 103

H.

Hackney carriage tax, history of, 96 ; alterations of 1869, 97
Hamilton, Dr., on debt, 210 *n.*, 214 *n.*
Harcourt, Sir W., Chancellor of the Exchequer 1886, 304 ; Budget, 1886, 318 *n.*
Hardy, Gathorne (Lord Cranbrook), succeeds Cardwell at War Office 1874, 68, 177 ; his successful administration, 196 ; at India Office, 269
Hartington, Lord, leader of Liberal Party, 176 ; "sent for" 1880, 270
Hicks-Beach, Sir M., moves resolution condemnatory of Budget of 1885, 316 ; Chancellor of the Exchequer, 317 ; his own Budget of 1886, 318
Herbert, Sidney, scheme of Army Reserve, 64 ; on votes of credit, 243 *n.*
Home Rule, 304 ; Gladstone and, 2
Horse duty and horse dealer's licence, history of, 94 ; simplified in 1869, 94 ; abolished, 188 ; revived by Goschen, 189 *n.*
House, Inhabited, Duty, collection improved, 86, 88. (*See* Vol. I.)
Hubbard, J. G., income tax committee 1862, 172 *n.* (*See* Vol. I.)
Hume, Joseph, income tax committee, 171. (*See* Vol. I.)
Hunt, Ward, succeeds Disraeli as Chancellor of Exchequer, 42 ; his Budget of 1868, 42, 78 *n.* ; does not meet liabilities, 45 ; First Lord of the Admiralty 1874, 177 ; his navy scare, 193 ; his administration, 193–5 ; death of 1877, 269
Huskisson, W., on sinking fund, 209 *n.*, 211 *n.* (*See* Vol. I.)
Hyde Park riots, 10 *n.*

I.

Income Tax, extraordinary miscalculation by Ward Hunt 1868, 42 *n.* ; raised 2*d.* by Ward Hunt as make-weight to meet deficit 1868, 43 ; new departure, 47 ; impositions and remissions as compared to indirect taxation, 48 ; Northcote on, 49, 189 *n.* ; alteration in mode and time of collection 1869, 82, 86, 89 *n.* ; Lowe remits 1*d.* 1870, 108 ; proposes to levy by varying percentage 1871, 123 ; 2*d.* imposed in lieu of Budget proposals 1871, 127 ; remitted in 1872, 144 ; increase in the amount of and limit of abatement, Lowe 144, Northcote 229 ; Gladstone proposes total repeal 1874, 165 ; third attempt to repeal it fails, 169 ; history of, and arguments pro and con., 169–70 ; Gladstone's opinion on inequalities of, 171 ; Hume's committee of 1851, 171 ; Committee of 1861, 172 ; disadvantages of, necessity for reform, 173–4 ; reduced to 2*d.* by Northcote 1874, 190 ; raised in 1876, 228 ; Disraeli's views on, 189, 228 *n.* ; produce of, 123, 170, 229 ; raised by Northcote 1878, 248 ; 1½*d.* added by Gladstone to meet cost of Egyptian War, 299 ; raised to 8*d.* in 1885, 318 ; reduced to 7*d.* in 1887, 318 *n.* Schedules, and rates of imposition since 1799, Appendix K. (*See* Vol. I.)
India, troops to Malta, 245 ; Government policy in Afghanistan, 264 ; Empress of, 265 *n.*
Indian army charge, 225. Appendix A. (*See* Vol. I.)
Inland Revenue Commissioners. (*See* Vol. I.)
Insurance, marine reduced, 37 ; fire repealed, 91
Intoxicants, failing consumption of, 225, 315 *n.* ; licences altered, 287. Appendix J. (*See* Vol. I.)
Ireland, coercion, 13, 129 *n.* ; optimism about, 129 *n.* ; harvest of 1879, 289 *n.* ; 1880–4, 302. *See* Fenianism, Irish Church, Irish Land, Home Rule.
Irish Church, Gladstone's views on Disestablishment, 1865, 2 ; discussed in 1867, 54 ; Disraeli's Government defeated on, 1868, 54, 55 *n.*
Irish land, Palmerston's views on, 3 ; Act of 1870 passed, 57
Ironclad fleet, 194, 312. (*See* Vol. I.)

J.

Joint stock banks, prohibitions on, removed, 15

K.

Kaffir wars, 244, 251, 255

L.

Land tax, collection improved, 86, 88 Appendix J.
Lecky, W. H., on Budget address of 1874, 165 *n.*
Legacy duty. *See* Death Duties.
Liberals, their differences in 1866, 9 ; de-

feated on Reform, 10 ; united in 1869, 54; majority at election 1868, 55 ; popularity of the Government, 56 ; their measures, 57 ; retrenchment and reform, 1869–72, 59-76 ; growing unpopularity of Government in 1871, 129, 162 *n.* ; foreign policy, 131 ; army expenditure and navy mismanagement, 132-3 ; defeat of Government on Irish University Bill, 1873, 163 ; dissolution and defeat, 1874, 164 ; disorganization of, 176 ; Disraeli's condemnation of, 168 *n.*; united at election of 1880, 270 ; return to power, 274 ; defeated on Budget 1885, and resignation, 303 ; majority at election 1885, 304 ; Government declares for Home Rule, Parliament dissolved, 304
Licence duties substituted for assessed taxes, 1869, 84; intoxicating liquor altered, 287. Appendix J.
Life annuities, 29
Limited liability, 19
Loans, foreign, 137, 139 ; Pitt's loans, how raised, 202 *n.* ; local, history of, 180 ; system of account changed, 180. *See* Debt. (*See* Vol. I.)
Local Government Board created, 57 ; Bill of 1871, 185 ; of 1878, 185
Local taxation, reforms proposed by Gladstone, 1874, 165 ; by Northcote, 1874, 185, 189 ; grants in aid, 184 ; increasing outlay on, 232, 272, 312
Locomotion, taxes on. *See* Carriages, Railway Duty. (*See* Vol. I.)
Lowe, Chancellor of Exchequer, 1868, 56, 77 ; as financial speaker, 77 ; Budget of 1869, 78 ; changes system of collection of the income tax, 82 ; changes assessed taxes into licence duties, 83 ; the "windfall," 91 ; Budget of 1870, 98 ; Budget of 1871, 118 ; match tax, 124 ; income tax, 124 ; collapse of Budget 1871, 127 ; revival of trade, 1872, 136 ; Budget of 1872, 141 ; large remissions of taxation 1872, 146 ; "prosperity Budget" of 1873, 146 ; as a financier, 160 ; takes Home Office 1873, 163 ; his description of the policy of the Liberal Government, 58 *n.* ; neglects specifically to reduce the debt, 160 ; on taxation, 157 ; on direct and indirect taxation, 158 ; his relinquishment of branches of taxation, 159
Lubbock, Sir John, on debt reduction, 206 ; objection to system of terminable annuities, 31 *n.* ; on Post Office, 272
Luxembourg Question, 111

M.

Malt Tax, 37, 183 ; history of, 276 ; difficulties in way of abolition, 279 ;



of commutation, 283 ; commuted by Gladstone in 1880, 284 ; advantages derived from commutation, 283 ; expected financial results, 286. (*See* Vol. I. Beer, Malt.)
Match Tax, proposed by Lowe 1871, unsoundness and unpopularity of, 124, 126
Maximilian, Emperor, shot, May, 1867, 112 *n.*
Metropolitan Board of Works, 8 ; underground railway opened 1863, 7
Militia, change of 1869, 67. (*See* Vol. I.)
Mill, J. S., returned for Westminster, 1 ; on commercial prosperity, 26 *n.* ; loses his seat, 1868, 55
Miscellaneous Revenue, 197 *n.* Appendix B.

N.

Napoleon III., precarious position in 1869, 111 ; sanguine of success against Prussia, 113 ; fall of the Empire, 114. (*See* Vol. I.)
National Debt. *See* Debt, and Sinking Fund.
Navy, reforms inaugurated by Sir J. Graham, 1831, 70, 71 *n.* ; continued by Childers, 1869, 71, 76 ; reorganization, promotion, 72; "business principles," 73; effect of the reforms, 74 ; unpopularity of Government, 74 ; increase of expenditure 1867, 41 ; reductions of 1869–72, 76 ; under a cloud 1871, 133 ; a phantom Board, 133 ; loss of the *Captain* and other disasters 1871, 134, 195 ; Ward Hunt at Admiralty, 1874, 193 ; alarmist speech, 193 ; mismanagement, 195 ; loss of *Vanguard*, 195. (*See* Vol. I.) ; Expenditure on, 1873–7, 232 ; 1873–80, 271 ; 1880–84, 312 ; scandals in connection with, 320 ; the future, 321
Newmarch, on Pitt's Loans, 202 *n.*
Newspaper Tax, history of from 1712, 104 ; repealed by Lowe 1870, 105. (*See* Vol. I.)
Northcote, Sir S. (Lord Iddesleigh), Private Secretary to Gladstone under Peel, 177 *n.* ; at Board of Trade and India Office, 1866–7, 10 ; on Income Tax and reducing sources of revenue, 48 ; Chancellor of Exchequer 1874, 176 ; his administration, 177–191 ; First budget on system of close estimate, 179 ; redemption of debt interrupted, 182 ; satisfactory division of surplus, 183 ; remits remainder of Sugar Duty, 187 ; on Income Tax, 49, 189 *n.* ; Budget of 1875, 197 ; His new Sinking Fund 1875, 217–223 ; Budget of 1876, 227 ; extends limits of exemption from income tax and

increases abatements, 229 ; Budget of 1877, 230 ; His seven Budgets, 233 ; Vote of Credit, six millions, 1878, 242 ; Budget of 1878, 246 ; "spreading" expenditure, 251 ; on reduction of debt, 252, 253 ; Budget of 1880, 257 ; his financial policy, 1877–80, 258

O.

Obstruction, 1882, 301
O'Donovan Rossa, 13
"Optional expenditure," 1873–77, 231 ; 1873–80, 271; 1880–84, 311. (*See* Vol. I.)
"Ordinary Expenditure," meaning of. (*See* Vol. I., 259 *n.*, 293 *n.*)
Overend & Gurney, failure of, 1866, 19

P.

Palmerston, death of, 1865, 2 ; sketch of, 2 ; his opinions, 3 ; intrigues with opposition against colleagues, 3 ; stagnation of legislation under, 4 ; succeeded by Lord Russell, 8 ; on Egypt, 236. (*See* Vol. I.)
Panics of 1826, 1847, 1857, and 1866, 17 *n.*, 18.
Parliament, of 1859 ends 1865, 1 ; work of, 1859–65, 5, 6, 7 ; private members' nights, 7 *n.*
Patent Medicine. Appendix J.
Pitt, his sinking fund, 32, 209–216. (*See* Vol. I.)
Post Horse duty, history of, 96 ; abolished in 1869, 97
Post Office, Savings Banks and Annuities established, 1861–4, 6 ; purchase of telegraphs, 1868, 49 ; half-penny post introduced, 57 ; expenditure in 1873–7, 232 ; 1873–80, 272 ; 1880–84, 311. (*See* Vol. I.)
Price, Dr., on the redemption of debt, 208, 209
Probate Duty. *See* Death Duties.
Property taxes. *See* Death Duties, Income Tax.
Prussia. *See* Franco-German War. (*See* Vol. I.)
Public accounts, change in system of presenting. Appendix A. *See* also 80 *n.*, 101. (*See* Vol. I., 39 *n.*, 182n., 293 *n.*)
Purchase, Army, abolition of, 1871, cost 57, 68, 133, 185 ; Royal warrant, 130 ; Regimental Exchanges Act, 196

R.

Race Horse duty abolished, 188 ; revived by Goschen, 189 *n.*



Railway duty, history of, 309 ; Cheap Trains Act, 1864, 7 ; reduction of duty, 309. (*See* Vol. I.)
Raw materials, malt duty, a tax on. (*See* Vol. I.)
Reciprocity, Lord Beaconsfield on, 268. (*See* Vol. I.)
Reform Bill, of 1866, 9 ; a 'poor thing,' 9 ; defeat of Government, 10 *n.* ; of 1867, 11 ; complete alteration of, 12 ; Scotch and Irish, 53. (*See* Vol. I.)
Regimental Exchanges Act, 196
Revenue, inelasticity of, in 1868, 79 ; in 1878–80, 260 ; increase of, 1869, 101 ; Lowe's under-estimates, 119–143, 147 ; leaps and bounds, 100, 146, 156 ; system of estimate previous to 1874, 178 ; change made in 1874, 179 ; effect on debt redemption, 179. *See* Appendix D. ; gross revenue, 1857–85, Appendix E. ; gross revenue, 1791–85, Appendix G. (*See* Vol. I.)
Rifles, 46 *n.*, 115, 119
Russell, Earl, succeeds Palmerston, 1865, 8 ; a new order of things, 8 ; Reform Bill of 1866, 9. (*See* Vol. I.)
Russia, Black Sea question, 116 ; growing feeling against, 1877, 239 ; Lord Beaconsfield on, 239 ; Turkish War, 239 ; advance on Constantinople, 240 ; treaty of San Stefano, 240

S.

Salisbury, Marquis of ; (Lord Cranbourne) resigns office, 1867, 12 ; (Lord Salisbury) foreign secretary 1878, 241 ; secret arrangement with Russia, 241 ; with Turkey, 241 ; Prime Minister, 303, 304
San Stefano, treaty of, 240, 246
Savings Banks, deficiency on, 217 *n.* ; stocks utilized for the creation of terminable annuities, 27, 28 *n.*, 30
Sinking Fund, Walpole's, 202, 207 ; plundered by Walpole, 208 ; Pitt's, 32, 209 ; originally founded on a surplus, 209 ; fallacy of, 209 ; how far Pitt deluded, 210 ; supposed necessity of preserving the fund during war, 211 ; changes made in, 211 ; additions to in 1819, 213 ; reduction made in 1823, 214 ; the finance committee of 1828, 214 ; to be based on an annual surplus, 214 ; abolition of the sinking fund, 215 ; the "old sinking fund," 215 ; net results of Pitt's sinking fund, 216 ; smaller sinking funds, 217 *n.* ; Lewis's sinking fund, 217 ; Northcote's "new sinking fund" of 1875, 32, 217 ; estimate of debt to be redeemed by its

means, 219 ; failure of plan, 219 ; reasons for failure, 221 ; taxation not imposed, 223 ; terminable annuities a good form of sinking fund, 33. Appendix D. *See* Debt. (*See* Vol. I.)
Smith, Sydney, on taxation. (*See* Vol. I.)
Smith, W. H., Admiralty 1877, 269
Soudan, 303
South Sea Company, 201 *n.*
Spirits, 157, 224 ; proposed increase 1885, 315 ; consumption of 1860–1885, 225. (*See* Vol. I.)
Stage Carriage tax, 95
Stamp duties, history of, 105 ; reformed by Lowe, 107 ; satisfactory results, 107. *See* Appendix J. (*See* Vol. I.)
Stanley, Lord, (Earl of Derby) as Foreign Secretary, 53 *n.* ; proposes arbitration to America, 148 ; Foreign Secretary 1874, 177 ; resigns, 241. (*See* Vol. I.)
Stock Exchange, 21 *n.*
Strikes in 1875, 139 *n.*
Succession Duties, 122, 123 *n.* Appendix M. (*See* Vol. I.)
Suez Canal shares, value of, 204 *n.* ; purchase of, 235 ; sinking fund, 217
Sugar duty reduced by half in 1870, 108 ; further reduced in 1873, 152 ; abolished 1874, 187 ; consumption of, 225. (*See* Vol. I.)
Supplementary estimates, 225, 243 *n.* (*See* Vol. I.)
Surplus of 1870, 101 ; of 1872, 146 ; of 1874, 183. (*See* Vol. I.)

T.

Taxation, remitted, 1869–73, 158 ; imposed, 1874–80, 271 ; 1880–84, 312 ; remitted, 1853–82, 300 ; direct and indirect, Appendix L. (*See* Vol. I.)
Taxes. *See* under respective heads. (*See* Vol. I.)
Tax revenue. *See* Appendix B. (*See* Vol. I.)
Tea, consumption of, 1860–1885, 225



Tea duty, 188 ; proposal to increase, 317. (*See* Vol. I.)
Telegraph, cable to America laid, 1866, 7 ; purchase of by Government, 49 ; extravagant price, 50 *n.* ; mismanagement of, 51. (*See* Vol. I.)
Terminable annuities, system and history of, 28
Tobacco. Appendix J. (*See* Vol. I.)
Trade, prosperity of, 1872–4, 100, 136 ; depression of, 1876, 224 ; evil effects of the "prosperous times," 141
Trade Marks Act, 1862, 7
Trades unions, 57. (*See* Vol. I.)
Treaty, of Paris, 1856, 116 ; San Stefano 1878, 240, 246 ; Berlin, 1878, 241 ; Gandamak, 264
Turkey, war with Russia, 1877, 239. *See* Eastern Question.

U.

United States. *See* Alabama, America.
University tests abolished, 57.

V.

Vivian, Sir H., on Coal scarce, 25.
Vote, of credit, explanation of, 243 ; of "six millions," 1878, 242 ; of "six millions," 1885, 303 ; of "eleven millions," 314

W.

War, Abyssinian, 1867, 38 ; Afghan, 1879, 264 ; Austro-Prussian, 1866, 46 *n.* (*See* Vol. I.) Franco-German, 1870, 110 ; Kaffir, 244, 251, 255 ; Russo-Turkish, 1877, 239 ; Zulu, 1879, 262–3
Warehousing system. (*See* Vol. I.)
Wine, duty on, 276, 289. (*See* Vol. I.)

Z.

Zulu War, 251, 255, 262.

END OF VOLUME II.

GLENDALE COLLEGE LIBRARY